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THE EFFECTS OF THE EUROPEAN COMMUNITY INTEGRATION ON SMALL BUSINESSES IN THE UNITED STATES

HEARING

BEFORE THE

SUBCOMMITTEE ON EXPORT EXPANSION

OF THE

COMMITTEE ON SMALL BUSINESS

UNITED STATES SENATE

ONE HUNDRED FIRST CONGRESS

SECOND SESSION

ON

THE EFFECTS OF THE EUROPEAN COMMUNITY INTEGRATION ON
SMALL BUSINESSES IN THE UNITED STATES

MARCH 28, 1990



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March 28, 1990:	
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THE EFFECTS OF THE EUROPEAN COMMUNITY INTEGRATION ON SMALL BUSINESSES IN THE UNITED STATES

WEDNESDAY, MARCH 28, 1990

U.S. SENATE,
SUBCOMMITTEE ON EXPORT EXPANSION,
COMMITTEE ON SMALL BUSINESS,
Washington, DC.

The Subcommittee met, pursuant to notice, at 2:20 p.m. in room SR-428A, Russell Senate Office Building, Hon. Barbara A. Mikulski (Chairman of the Subcommittee) presiding.

STATEMENT OF HON. BARBARA A. MIKULSKI, A U.S. SENATOR FROM THE STATE OF MARYLAND

Senator MIKULSKI. Thank you very much.

First of all, I would like to welcome my panelists, the panelists who have agreed to come here today. We are going to be discussing EC '92 and trade opportunities for small businesses. EC is now our largest trading partner, and, if all goes the way it is anticipated, it will provide us with a unified market of 320 million consumers. EC '92 will remove much of the redtape and other barriers that have kept U.S. small business from exporting more. That is at least what they say. I believe it has yet to be seen.

On the other hand, we need to be aware of any potential new barriers that might be erected as a result of EC '92.

Today I would like to examine opportunities for exports by small business, the U.S. Government's response—how is it serving small business, does small business believe that it is being served, and what we can do to enhance and amplify our resources in that area.

We want also to be able to identify the best strategies for small business in Europe and how to encourage more small business exports.

We have a fine panel of public and private sector witnesses, including two business people who will share their success stories with us. As far as I know, this is the first time small business people have testified on the subject. We want to look at the issue through the eyes of small business.

I am going to ask you to summarize your statements so that we can move into questions.

[The prepared statement of Senator Mikulski follows:]

**SEN. BARBARA A. MIKULSKI
CHAIR, EXPORT EXPANSION SUBCOMMITTEE
OPENING STATEMENT**

Today the Export Expansion Subcommittee will consider the European Community's 1992 Integration and the effects it will have on trade opportunities for small businesses.

The EC is now our largest trading partner. It has a combined market of 320 million consumers, with a gross domestic product of \$4 trillion. It accounts for 16.5% of world trade. The EC buys more U.S. exports than any other country--23.3% of our total.

Moreover, the importance of the Community as a trading partner will only increase after full integration in 1992, when 1.8 million new jobs will be created and demand for goods and services will increase by \$260 million.

In addition, the EC92 integration process will remove much of the red tape and other barriers that have discouraged U.S. small businesses from exporting more actively.

U.S. exporters, and small businesses in particular, cannot afford to ignore the EC market or the changes taking place in it.

The point of today's hearing is to take a nuts-and-bolts approach to small business exports to the EC -- to see the European market through the eyes of small businesspersons.

The subcommittee will examine new opportunities for small business exports in the EC as well as possible barriers resulting from the 1992 integration process.

We will also consider the U.S. government's response to the new economic climate in Europe: how are U.S. agencies helping small businesses find European markets and the assistance they need to export there?

Our witnesses will also help us explore the best strategies for small business exporting.

Finally, we will discuss ways to encourage more small businesses to seek new markets outside U.S. borders.

We have a fine panel of public and private sector witnesses, including two small businessmen who will share their success stories with us. As far as I know, few, if any, small business exporters have testified before the Congress on their experiences, and I think the members of the subcommittee will benefit from their perspective.

Senator MIKULSKI. We are going to call upon our first witness, Mr. Ludolph.

Mr. Ludolph, would you explain to us who you are, and we will ask you to proceed.

STATEMENT OF CHARLES LUDOLPH, DIRECTOR, OFFICE OF EUROPEAN COMMUNITY AFFAIRS, U.S. DEPARTMENT OF COMMERCE, WASHINGTON, DC.

Mr. LUDOLPH. Thank you, Senator. I am Charles Ludolph. I am the Director of the Office of European Community Affairs at the U.S. Department of Commerce. As such, I am in charge of developing the programs for the Department to take advantage of the opportunities and to come to grips with the challenges of the EC '92 program.

I compliment you and your panel for looking at this subject today as one of the most important subjects that we have on our plate of trade agenda for the 1990s. Small businesses and the developments in the global marketplace are going to be the key to U.S. participation in the international economy in the future.

I appreciate the opportunity, and I will briefly summarize my remarks which I have already turned over to your staff.

The 1992 program presents both an opportunity and a challenge to U.S. small- and medium-size businesses. Selling to one single European market of 325 million consumers can be more profitable than selling to 12 fragmented markets as has been the case for the last 40 years.

Mainly because of national barriers and the limited resources of small businesses, U.S. companies have refrained from entering the entire EC market. The mere existence of 12 separate requirements for certification systems, filling out dozens of Customs forms, and the renewal and maintenance of patents in all 12 countries have been a bureaucratic barrier to the European penetration of the market as well as costing a great deal of money.

National testing and certification compliance for one country costs thousands of dollars and takes as much as 2 years. Annual patent renewals cost hundreds of dollars in legal fees in each country, and those have to be renewed every year.

The result is that one-half of U.S. exporters to the European Community sell in only one European country. In 1987, about 20,000 U.S. exporters were exporting to the United Kingdom, approximately 16,000 to West Germany, 1,800 to Portugal. Sixty percent of all our exports to the European Community only go to three of the 12 countries.

Because of this, the administration supports the European Community's efforts to create a single market. After 2 years of monitoring and analyzing the guidelines and regulations of their program, we have concluded that for the most part the European Community regulations are not discriminatory toward U.S. business in general or small business in particular.

However, small businesses, particularly U.S.-based businesses, can be adversely affected if they are not prepared, and that preparation requires a great deal of information and analysis that challenges the resources of small businesses. The Commerce Depart-

ment views itself, therefore, as the guardian of small businesses wanting to export and develop international markets for their products. We do for them largely through our domestic and international offices and the programs of the U.S. and Foreign Commercial Service what they cannot afford to do for themselves.

To assist firms with expansion capabilities, we started a program where U.S. and Foreign Commercial Service officers contact American companies which do business in only one EC country to encourage them to consider going into other EC countries now that these opportunities are available to them. Basically in the last 3 years, growth has been faster in Europe than here in the United States. The faster growth not only has good potential for U.S. business but also has had the effect of doing away with the trade deficit that we have held with the European Community and increasing our bilateral position to a surplus in the last year of \$1.5 billion.

The vast majority of nonEC businesses will not have to invest in the EC to benefit from most of the opportunities created by the single market, but what they do need to do, however, is review their strategies in light of EC '92, something that they have only begun to do.

During the time the EC market has been forming, we find there are particular things that U.S. exporters need to do to market to the European Community. Market strategy in this rapidly changing commercial environment implies a U.S. business person must obtain timely information and reduce the risk of too much invested capital.

Local distributors and sales agents in Europe should be considered as one of the best ways to get good intelligence on developments in the European market and to avoid the need to invest.

Most companies now doing business in the European Community are developing a strategy to increase cross-border sales rather than examining only national opportunities, and most companies now feel that they are not ready for full single market marketing. There are several reasons for this strategy. The European market is only developing and has 2 or 3 more years to go. Also, commercially, U.S. businesses are still going to be facing language barriers and cultural practices not integrated by legal programs.

Let me describe the current state of play of U.S.-EC relations and some of the improvements and problems we are facing. Over the past year we have seen the need to adjust very specific areas of concern over the 1992 program. We are focusing much of our attention to working with the business community on these areas and to resolving existing or potential problems both in the Uruguay Round as well as in bilateral discussions with the European Community.

As businesses begin to gear up to take advantage of the single market and prepare for the legal and logistical changes, they are becoming aware of possible difficulties in certain segments of the program. The problems they are finding are, in many cases, specific new technical requirements that require very close scrutiny.

Last May, Commerce Secretary Mosbacher and the EC Commission Vice President Martin Bangemann reached an agreement on greater transparency and standards development and on establish-

ing a regular bilateral dialogue on concerns over access to standards and testing, two very important issues facing small business.

The EC Commission has been very receptive to these consultations. We are currently planning for the next round of consultations particularly on access to testing and certification. A very important issue is for U.S. businesses to have access here locally in the United States in order to access the European Community market. Those talks will be held in May.

I want to reiterate what I stated earlier, that generally the U.S. business experience has been that investment in Europe can be undertaken primarily for commercial reasons and is not forced. Over all, EC member states' local investment policies have not been non-discriminatory.

But there is a possible trend toward forced investment favoring certain European products and technologies over others, and this is extremely troubling and unacceptable to the Administration. This is true whether the investment is forced through local content provisions of EC directives or through the application of differential rules of origin or revised tariff guidelines regarding suspensions of duty.

American firms need to be free to make their own determination on where they will establish manufacturing facilities and investments. The decisions should not be forced by any restrictions.

Areas where these exist at the moment are in public procurement for utilities that affect telecommunications, information technology, and electricity generation manufacturers, broadcasting, semiconductors, and pharmaceuticals. All of these sectors are potentially affected by local content rules in the European Community. Each of these issues is being dealt with bilaterally or multilaterally as they come up.

But there still is a problem in that the more these rules are promulgated, the more the U.S. business community gets the sense that in the long term they had better invest in the European Community rather than rely upon the negotiating powers of the U.S. Government.

To deal with these trade issues, the USTR has created the Inter-agencies Task Force on EC '92. The task force is established with 11 working groups which focus on specific issues. Investment, agriculture, and standards are some of the 11 subject matters that the task force is currently monitoring. The responsibilities for each of these groups are assigned to agencies that have an expertise. Seventeen Federal agencies participate in that task force and share their expertise in order to face the problems which the European Community presents.

The interest and concerns of small business are uppermost in the deliberations of these agencies, particularly Commerce, the State Department, the USTR and the Small Business Administration. The U.S. Department of Commerce and the USFCS are particularly interested in small business interests in exporting or problems with contacting agencies.

In areas like standards and testing or rules of origin, small businesses are most at risk because of their limitations in being able to respond to restrictive rules, and these become the highest priority of the USTR task force.

In task force deliberation, small business interests enter through the advocacy of agencies. In addition to our Private Sector Advisory Committee structures, these committees are comprised of U.S. business interests including small businesses, the National Federation of Independent Business and other umbrella organizations for small business as well as trade associations.

I just want to spend a few moments to describe the help that small business exporters find available to promote trade opportunities, obtain commercial information, and solve problems. I will describe the Commerce Department's activities for nonagricultural products. These are indicative of what the USDA programs do for agricultural products and also the support that the Department of State gives through their foreign posts where U.S. and FCS posts are not located.

To be useful to small businesses, all of the services given by the Government must be available on one phone call. One-stop service has to be available because U.S. businesses do not have the time or the money to look for the range of services that the Government can render.

The Commerce Department, for example, believes itself to be a clearinghouse for exporter interests, even extending into other programs.

We also find in dealing with small business exporters in particular that the EC '92 program is so large and complex that the Government must perform more functions than simply promoting trade. The 1992 program is composed of 279 regulations and involves thousands of standards and tests. In order to simplify that for businessmen, Government, particularly the Commerce Department, has prepared texts both analyzing the program that the EC has produced as well as identifying market opportunities in Europe. These documents are available through the Commerce Department, and we have shared them with your staff.

In addition, the USTR has produced a very good text on issues and problems of economic importance stemming from the internal market that will be published in April. This was also submitted to your Committee.

Let me just briefly then say what it is that our experience has been in——

Senator MIKULSKI. You are going to have to wrap it up.

Mr. LUDOLPH. I just want to say something about the growth and the export promotion program which is specifically dedicated to the European Community. The Commerce Department has focused its resources both in terms of standards as well as exporting in the promotion for small business interests and has created a great deal of information services to develop for the community of small businesses access to the kind of information they need to penetrate the market. In all, about 30,000 businesses in the last two years have contacted the Department in this area.

Madam Chairman, thank you very much for this opportunity to summarize what the Administration has been doing over the last 2 years in this regard, and I look forward to working with you and your Committee in the future to increase our ability to deal with this problem.

[The prepared statement of Mr. Ludolph follows:]

STATEMENT OF
CHARLES LUDOLPH
DIRECTOR
OFFICE OF EUROPEAN COMMUNITY AFFAIRS
U.S. DEPARTMENT OF COMMERCE
BEFORE THE
SENATE SMALL BUSINESS COMMITTEE'S
EXPORT EXPANSION SUBCOMMITTEE

MARCH 28, 1990

MADAME CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE, I AM PLEASED TO BE HERE TODAY TO DISCUSS THE EUROPEAN COMMUNITY'S PLAN TO COMPLETE A SINGLE INTERNAL MARKET BY THE END OF 1992, THE IMPLICATIONS OF THAT PLAN FOR THE U.S. SMALL BUSINESS COMMUNITY, AND THE DEPARTMENT'S PROGRAMS TARGETED TO HELP SMALL U.S. BUSINESSES TO GET READY FOR THIS EVENT.

THE EC'S 1992 PROGRAM PRESENTS AN OPPORTUNITY AND A CHALLENGE TO THE U.S. SMALL AND MEDIUM SIZED BUSINESS. SELLING TO ONE SINGLE EUROPEAN MARKET OF 325 MILLION CONSUMERS CAN BE MORE PROFITABLE THAN SELLING TO TWELVE FRAGMENTED MARKETS. A SMALL BUSINESS NEED ONLY INVEST IN ONE MARKET DEVELOPMENT PROGRAM. EC 1992 IS A CHALLENGE BECAUSE THE INVESTMENT TO DEVELOP ANY NEW MARKET OPPORTUNITY IS SUBSTANTIAL AND U.S. BUSINESSES FIND IT DIFFICULT AND RISKY TO MAKE THESE SUBSTANTIAL COMMITMENTS FOR A VARIETY OF REASONS.

THE COMMERCE DEPARTMENT VIEWS ITSELF AS THE GUARDIAN OF SMALL BUSINESSES WANTING TO EXPORT AND DEVELOP INTERNATIONAL MARKETS FOR THEIR PRODUCTS. WE DO FOR THEM, LARGELY THROUGH THE DOMESTIC AND INTERNATIONAL OFFICES AND PROGRAMS OF US&FCS, WHAT THEY CANNOT AFFORD TO DO BY THEMSELVES: WE ORGANIZE TRADE SHOWS, FIND DISTRIBUTORS, FIGHT AGAINST DISCRIMINATORY FOREIGN PRACTICES, IDENTIFY MARKETING OPPORTUNITIES, ESTABLISH OVERSEAS CONTACTS. OUR MISSION IS TO DO THE "TOUGH JOB" FOR SMALL BUSINESS.

WITH RESPECT TO EC 1992, OUR INVOLVEMENT ON BEHALF OF SMALL BUSINESS IS ESPECIALLY IMPORTANT BECAUSE OF THE VARIETY, BREADTH AND COMPLEXITY OF THE RAPID CHANGES OCCURRING IN EUROPE TODAY. EUROPEANS ARE CREATING A SINGLE PATENT AND TRADEMARK, DEREGULATING SERVICE INDUSTRIES, SIMPLIFYING TRANSPORT DOCUMENTS, TERMINATING MULTIPLE NATIONAL REQUIREMENTS FOR PRODUCT CERTIFICATIONS. THESE ARE THE VERY SAME FACTORS THAT IN THE PAST BURDENED SMALL BUSINESS DISPROPORTIONATELY.

AFTER TWO YEARS OF MONITORING AND ANALYZING THE GUIDELINES AND REGULATIONS PROPOSED AND PASSED BY THE EC, WE HAVE CONCLUDED THAT, FOR THE MOST PART, THE NEW EC REGULATIONS ARE NOT DISCRIMINATORY TOWARD U.S. BUSINESS IN GENERAL OR SMALL AND MEDIUM-SIZED COMPANIES IN PARTICULAR.

HOWEVER, SMALL BUSINESSES, PARTICULARLY U.S.-BASED BUSINESSES, CAN BE ADVERSELY AFFECTED IF THEY ARE NOT PREPARED. THE CHANGES IN THE EC SINGLE MARKET REQUIRE A GREAT DEAL OF INFORMATION AND SOME ADAPTATION. THE SINGLE MARKET PROGRAM IS PROGRESSING RAPIDLY AND CHANGES AND TRANSITIONS ARE VERY IMPORTANT FOR COMPETITIVE SURVIVAL.

THESE CHANGES POTENTIALLY WILL BENEFIT SMALL BUSINESS TO A LARGER DEGREE THAN THEY WILL LARGE U.S. COMPANIES WITHOUT EC AFFILIATES OR SUBSIDIARIES. UNTIL NOW, BECAUSE OF LIMITED FINANCIAL AND STAFF RESOURCES, SMALL U.S. COMPANIES REFRAINED FROM ENTERING THE ENTIRE EC MARKET. THE MERE EXISTENCE OF 12 DIFFERENT SETS OF STANDARDS IN THE EC DISCOURAGED MOST OF THEM. THE PERSEVERENT COMPANIES THAT DECIDED TO DO BUSINESS IN THE ENTIRE EC STILL HAD TO FACE TWELVE DIFFERENT CERTIFICATION SYSTEMS, FILL OUT DOZENS OF CUSTOMS FORMS AND RENEW AND MAINTAIN PATENTS IN ALL 12 COUNTRIES. NATIONAL TESTING AND CERTIFICATIONS COULD COST THOUSANDS OF DOLLARS AND TAKE AS MUCH AS TWO YEARS. ANNUAL PATENT RENEWALS COST HUNDREDS OF DOLLARS IN LEGAL FEES IN EACH COUNTRY.

AS A RESULT, MANY U.S. FIRMS ONLY DEAL WITH ONE COUNTRY IN EUROPE-- GENERALLY THE U.K. AND WEST GERMANY-- BECAUSE THEY ARE THE LARGEST NATIONAL MARKETS IN THE EC AND GENERALLY U.S. COMPANIES BELIEVE THEY CAN ONLY AFFORD TO DEVELOP ONE MARKET. LET ME GIVE YOU SOME NUMBERS TO ILLUSTRATE THE CURRENT SITUATION.

ONE-HALF OF U.S. EXPORTERS SELL IN ONLY ONE FOREIGN COUNTRY. IN 1987, ABOUT 20,000 U.S. EXPORTERS WERE EXPORTING TO THE UNITED KINGDOM, APPROXIMATELY 16,000 TO WEST GERMANY, 12,000 TO FRANCE, AND ONLY 1,800 TO PORTUGAL. SIXTY PERCENT OF ALL OUR EXPORTS TO THE EUROPEAN COMMUNITY GO TO ONLY THREE COUNTRIES: THE UNITED KINGDOM, GERMANY AND THE NETHERLANDS.

THESE FIGURES SUGGEST THAT THERE IS AMPLE ROOM FOR U.S. EXPORTERS WITH COMPETITIVE PRODUCTS TO EXPAND THEIR EUROPEAN OPERATIONS. NOW, THANKS TO TO THE SINGLE INTERNAL PROGRAM, THESE NUMBERS WILL SLOWLY CHANGE. IN ADDITION TO THE DIRECT BENEFITS OF EC 1992 I JUST MENTIONED, THE EC RECENTLY CREATED A CUSTOMS FORM, CALLED THE SINGLE ADMINISTRATIVE DOCUMENT, WHICH REPLACES ALL EUROPEAN CUSTOMS FORMS, UP TO 130, PREVIOUSLY REQUIRED. THIS LEAVES LITTLE EXCUSE FOR U.S. EXPORTERS, INCLUDING SMALL BUSINESSES, NOT TO CLAIM THEIR SHARE OF THE EUROPEAN MARKET.

TO ASSIST FIRMS WITH THEIR EXPANSION CAPABILITIES, WE STARTED A PROGRAM WHERE OUR US&FCS COMMERCIAL OFFICERS CONTACT AMERICAN COMPANIES WHICH DO BUSINESS IN ONLY ONE EC COUNTRY TO ENCOURAGE THEM TO CONSIDER OTHER EC MARKETS IN LIGHT OF NEW OPPORTUNITIES CREATED BY EC 1992. OF COURSE TO MAXIMIZE THE BENEFITS OF THIS PROGRAM, OUR COMMERCIAL OFFICERS LOCATED IN EUROPE WILL COORDINATE THEIR EFFORTS.

AN INTEGRATED EUROPE WILL ALSO MEAN EASIER MARKETING AND DISTRIBUTION SYSTEMS FOR SMALL U.S. FIRMS INTERESTED IN THE EUROPEAN MARKET. LINGUISTIC AND CULTURAL DIFFERENCES WILL REMAIN AND WILL REQUIRE MINOR PRODUCT ADJUSTMENTS.

SPEAKING ABOUT DISTRIBUTION SYSTEMS I WOULD LIKE TO POINT OUT THAT THE COMMERCE DEPARTMENT IS CURRENTLY WORKING WITH THE NATIONAL ASSOCIATION OF WHOLESALERS TO ESTABLISH DISTRIBUTION NETWORKS IN EUROPE. IN EARLY JUNE, WE INTEND TO PARTICIPATE IN A MISSION TO BRUSSELS ORGANIZED BY THE ASSOCIATION FOR ITS MEMBERS TO EXPLORE DISTRIBUTION OPPORTUNITIES IN THE SINGLE MARKET. THIS WILL INCREASE OUR EXPORTS OF NOT ONLY SERVICES, BUT ALSO U.S. GOODS, AS THOSE WHOLESALERS PRESENT A NATURAL OPPORTUNITY TO DISTRIBUTE AMERICAN PRODUCTS. I THINK THIS VISIT WILL BE EXTREMELY BENEFICIAL.

THE FASTER ECONOMIC GROWTH WHICH EUROPE HAS BEEN EXPERIENCING DURING THE PAST THREE YEARS AS A RESULT OF THE SINGLE MARKET PROGRAM WILL ALSO BENEFIT U.S. FIRMS, AS INCOMES RISE AND DEMAND FOR ALL GOODS, INCLUDING U.S. ONES, INCREASES. LET ME STRESS THAT, IN 1989, WE HAD A TRADE SURPLUS-- A PHRASE YOU DO NOT HEAR ENOUGH ON CAPITOL HILL-- OF \$1.5 BILLION. THIS COMPARES TO OUR PEAK DEFICIT WITH THE EC OF \$23 BILLION, JUST THREE YEARS AGO. U.S. BEST SELLERS WERE TELECOMMUNICATIONS EQUIPMENT AND CAPITAL GOODS.

WHILE THERE IS A LOT OF EMPHASIS ON DOING BUSINESS WITH EASTERN EUROPE AND WHILE WE ALL WELCOME THE DEMOCRATIC CHANGES TAKING PLACE, MARKET SIZES AND FINANCIAL SITUATIONS WOULD INDICATE THAT FOR MOST U.S. BUSINESSES WESTERN EUROPE IS A FAR MORE ATTRACTIVE MARKET TO GET INTO. AND THE EC IS AFTER ALL THE WORLD'S LARGEST TRADING BLOC.

THE VAST MAJORITY OF NON-EC BUSINESSES WILL NOT HAVE TO INVEST IN THE EC TO BENEFIT FROM MOST OF THE OPPORTUNITIES CREATED BY THE SINGLE MARKET PROGRAM. WHAT THEY DO NEED TO DO HOWEVER IS TO REVIEW THEIR GLOBAL STRATEGY IN LIGHT OF EC 1992. TO MAXIMIZE BENEFITS RESULTING FROM THESE NEW EC OPPORTUNITIES, U.S. INDUSTRY MUST ACT NOW. DECEMBER 31, 1992 IS A DEADLINE WHICH THE EC HAS GIVEN ITSELF AND EUROPEAN INDUSTRY TO SPEED UP THE MOMENTUM. 1992 IS NOT A STARTING POINT FOR ACTION TO TAKE ADVANTAGE OF THESE OPPORTUNITIES. OVER HALF THE TABLED EC DIRECTIVES HAVE ALREADY BEEN FORMALLY PASSED. EC MEMBER STATES, HOWEVER, HAVE BEEN VERY SLOW IN ADOPTING THEM IN THEIR NATIONAL LEGISLATION.

THE U.S. GOVERNMENT- I WILL DESCRIBE THE INTERAGENCY PROCESS IN GREATER DETAIL LATER IN MY TESTIMONY- AND THE AMERICAN BUSINESS COMMUNITY ARE WORKING TOGETHER AND USING THEIR LEVERAGE ON EUROPEANS, FIRST, TO OBTAIN INFORMATION ABOUT THE DIRECTIVES BEFORE THEY ARE FINALIZED, AND, SECOND, TO ENSURE THAT WE GET OPEN MARKET ACCESS AND FAIR TREATMENT.

IT IS NOT ONLY IN THE EUROPEANS' INTEREST TO SUCCEED IN THIS EC 1992 PROGRAM, BUT ALSO IN OURS AND IN THAT OF WORLD TRADE IN GENERAL. THE EC IS THE LARGEST TRADING ENTITY IN THE WORLD. AN OPEN SINGLE EUROPEAN MARKET PROVIDES THE BEST BASIS FOR EXPANSION OF INTERNATIONAL BUSINESS AND AN EFFECTIVE INCENTIVE FOR MULTILATERAL TRADE NEGOTIATIONS.

AS EUROPEAN FIRMS PREPARE FOR 1992 BY MERGING, INCREASING THE AMOUNT AND SOPHISTICATION OF THEIR CAPITAL EQUIPMENT, AND REDUCING COSTS, THEY WILL CHALLENGE U.S. COMPANIES NOT ONLY IN EUROPE BUT ALSO IN THE UNITED STATES AND THE REST OF THE WORLD. U.S. SMALL BUSINESS WILL BE MORE EFFECTED BY THIS NEW COMPETITIVE ENVIRONMENT THAN BY THE NEW EC-WIDE RULES AND REGULATIONS, WHICH ARE GENERALLY PUT IN PLACE TO HARMONIZE ALREADY EXISTING REGULATIONS. THEREFORE, COMMERCE IS STRONGLY URGING ALL U.S. BUSINESSES TO REVIEW THEIR GLOBAL STRATEGY NOW, BOTH IN TERMS OF NEW OPPORTUNITIES AND OF CHANGING COMPETITIVE ENVIRONMENT.

LET ME NOW DESCRIBE THE CURRENT STATE-OF-PLAY OF U.S.-EC TRADE RELATIONS AND SOME OF THE IMPROVEMENTS AND PROBLEMS WE ARE FACING. OVER THE PAST YEAR, WE HAVE SEEN THE NEED TO ADJUST TO ADDRESS VERY SPECIFIC AREAS OF CONCERN. WE ARE FOCUSING MUCH OF OUR ATTENTION TO WORKING WITH THE BUSINESS COMMUNITY ON THESE AREAS AND TO RESOLVING EXISTING OR POTENTIAL PROBLEMS, BOTH THROUGH THE GATT URUGUAY ROUND AND IN BILATERAL DISCUSSIONS WITH THE EC.

AS U.S. BUSINESSES BEGIN TO GEAR UP TO TAKE ADVANTAGE OF A SINGLE, CONTINENTAL-SIZE MARKET IN EUROPE AND PREPARE FOR LEGAL AND LOGISTICAL CHANGES, THEY ARE BECOMING MORE AWARE OF POSSIBLE DIFFICULTIES IN CERTAIN SEGMENTS OF THE EC'S PROGRAM AND ARE SEEKING, MORE THAN EVER, U.S. GOVERNMENT ASSISTANCE IN MAKING SURE THERE IS A LEVEL PLAYING FIELD. THE PROBLEMS THEY ARE FINDING ARE IN MANY CASES SPECIFIC NEW TECHNICAL REQUIREMENTS THAT REQUIRE CLOSE SCRUTINY.

I AM PLEASED TO REPORT THAT IN SEVERAL CASES, THE EC HAS LISTENED TO OUR ARGUMENTS AND IS ADJUSTING SOME OF ITS POLICIES OR DIRECTIVES ACCORDINGLY. THE AREA OF STANDARDS IS A PRIME EXAMPLE.

AS STANDARDS-RELATED DIRECTIVES ARE BEING ADOPTED AND IMPLEMENTED IN THE EC, EUROPEAN PROCEDURES IN STANDARDS DEVELOPMENT CONTINUE TO MAKE IT DIFFICULT FOR U.S. FIRMS TO ACQUIRE INFORMATION ON DEVELOPING STANDARDS, ALTHOUGH IMPROVEMENTS ARE IN PROSPECT.

LAST MAY, COMMERCE SECRETARY MOSBACHER AND EC COMMISSION VICE PRESIDENT MARTIN BANGEMANN REACHED AN AGREEMENT ON GREATER TRANSPARENCY IN STANDARDS DEVELOPMENT AND ON ESTABLISHING A REGULAR BILATERAL DIALOGUE ON STANDARDS-RELATED ISSUES.

IN OCTOBER, COMMERCE ASSISTANT SECRETARY DUESTERBERG LED A U.S. DELEGATION OF STANDARDS EXPERTS (INCLUDING U.S. GOVERNMENT AND PRIVATE-SECTOR REPRESENTATIVES) TO BRUSSELS UNDER THE MOSBACHER-BANGEMANN AGREEMENT. WE ARE CURRENTLY PLANNING FOR THE NEXT ROUND WHICH WILL TAKE PLACE THIS SPRING.

SECRETARY MOSBACHER ALSO MET WITH THE HEADS OF EUROPEAN STANDARDS ORGANIZATIONS LAST MAY TO AIR U.S. CONCERNS AND SEEK GREATER ACCESS TO EC STANDARDS DEVELOPMENT. THIS MEETING LED TO THESE ORGANIZATIONS ESTABLISHING A MECHANISM, THAT IN PRINCIPLE, WILL ALLOW AT LEAST INDIRECT INPUT TO EUROPEAN STANDARDS DEVELOPMENT FROM NON-EUROPEAN EXPERTS. IT REMAINS TO BE SEEN HOW WELL THE MECHANISM IS IMPLEMENTED IN PRACTICE.

IN ADDITION, THE EUROPEAN STANDARDS ORGANIZATIONS COMMITTED THEMSELVES TO ADOPTING INTERNATIONAL STANDARDS (DEVELOPED BY ORGANIZATIONS IN WHICH THE U.S. IS ALSO A MEMBER) WHERE APPROPRIATE. U.S. INDUSTRY REPRESENTATIVES HAVE BEGUN TO SEEK ACCESS TO EUROPEAN STANDARDS DEVELOPMENT THROUGH THE NEWLY-ESTABLISHED MECHANISMS OR THROUGH THEIR SUBSIDIARIES IN EUROPE. WE ARE AWARE OF SOME CASES WHERE THE EUROPEAN STANDARDS ORGANIZATIONS HAVE ADOPTED EXISTING MEMBER STATE STANDARDS TO MEET EC REQUIREMENTS, RATHER THAN ADOPTING EXISTING INTERNATIONAL STANDARDS.

WHEREAS SOME U.S. INDUSTRIES ARE REPORTING CLOSER TIES AND BETTER RESULTS NOW WITH EUROPEAN STANDARDS DEVELOPERS, OTHERS STATE THAT EUROPEAN TECHNICAL COMMITTEES ON CERTAIN STANDARDS ARE BEING CONTROLLED UNFAIRLY BY THE REPRESENTATIVE HOLDING THE LEADING EUROPEAN NATIONAL STANDARD. TO CONTINUE TO MONITOR U.S. ACCESS TO EUROPEAN STANDARDS DEVELOPMENT AND THE WHOLE EC GLOBAL APPROACH TO STANDARDS, IN JANUARY SECRETARY MOSBACHER ESTABLISHED THE "ADVISORY COMMITTEE ON STANDARDS TESTING AND CERTIFICATION IN 1992". THE FIRST MEETING OF THAT ADVISORY GROUP WILL BE HELD NEXT MONTH. STANDARDS, HOWEVER, IS AN AREA WHERE WE HAVE MADE A LOT OF PROGRESS.

THE EC HAS ALSO AGREED TO A FULL CONSULTATION PROCESS. THIS MEANS THAT EVERY SIX MONTHS, DIRECTOR GENERALS AND THEIR U.S. COLLEAGUES (PROBABLY AT THE UNDER SECRETARY LEVEL) WILL DISCUSS CURRENT BILATERAL ISSUES. THIS INSTITUTIONALIZED DIALOGUE WILL ALLOW BOTH SIDES TO EXPLORE SOLUTIONS BEFORE PROBLEMS BECOME INSURMOUNTABLE.

WE HAVE A CONCERN THAT EC ACTIONS IN CERTAIN SECTORS ARE TENDING TO FORCE U.S. FIRMS TO INVEST IN EUROPE FOR NON-COMMERCIAL REASONS AND TO BUILD UP EC CONTENT. THIS WOULD SEVERELY AFFECT U.S. SMALL BUSINESS AS THEY DO NOT HAVE THE OPTION OF ESTABLISHING PRODUCTION FACILITIES. WE CONTINUE TO HEAR FROM U.S. FIRMS ABOUT THE GROWING PRESSURE THEY FEEL TO INVEST IN THE EC TO RETAIN ACCESS TO THAT MARKET.

I WANT TO REITERATE WHAT WAS STATED EARLIER: GENERALLY THE U.S. BUSINESS EXPERIENCE HAS BEEN THAT INVESTMENT IN EUROPE HAS BEEN UNDERTAKEN FOR PRIMARILY COMMERCIAL REASONS, NOT BY FORCED INVESTMENT POLICIES. OVERALL, EC MEMBER STATES' LOCAL INVESTMENT POLICIES HAVE BEEN NON-DISCRIMINATORY.

THE POSSIBLE TREND OF "FORCED INVESTMENT" OR THE FAVORING OF EUROPEAN PRODUCTS AND TECHNOLOGIES OVER OTHERS IS EXTREMELY TROUBLING AND UNACCEPTABLE TO US. THIS IS TRUE WHETHER THE INVESTMENT IS FORCED THROUGH LOCAL CONTENT PROVISIONS IN DIRECTIVES, THROUGH THE APPLICATION OF DIFFERENT RULES OF ORIGIN OR REVISED DUTY SUSPENSION GUIDELINES, AND THROUGH LIMITATIONS OF THE SCOPE OF PRODUCTS THAT MAY BENEFIT FROM INTELLECTUAL PROPERTY PROTECTION RIGHTS. AMERICAN FIRMS NEED TO BE FREE TO MAKE THEIR OWN DETERMINATION ON WHERE THEY WILL ESTABLISH MANUFACTURING FACILITIES BASED ON COMMERCIAL CONSIDERATIONS. INVESTMENT DECISIONS SHOULD NOT BE FORCED BY RESTRICTIVE REGULATIONS.

AREAS WHERE THESE RULES EXIST OR ARE PROPOSED ARE IN PUBLIC PROCUREMENT IN UTILITIES (SUCH AS TELECOMMUNICATIONS AND ELECTRICITY GENERATION), BROADCASTING, SEMICONDUCTORS, AND PHARMACEUTICALS.

TO DEAL WITH SUCH TRADE ISSUES RAPIDLY AND EFFICIENTLY, THE USTR HAS CREATED AN INTERAGENCY TASKFORCE. THE TASK FORCE ESTABLISHED INTO 11 WORKING GROUPS WHICH FOCUS ON SPECIFIC ISSUES, SUCH AS INVESTMENT ISSUES, AGRICULTURE AND STANDARDS. RESPONSIBILITIES ARE ASSIGNED TO AGENCIES THAT HAVE AN EXPERTISE. SEVENTEEN FEDERAL AGENCIES PARTICIPATE IN THAT TASKFORCE AND SHARE THEIR EXPERTISE. THE INTERESTS AND CONCERNS OF SMALL BUSINESS ARE UPPERMOST IN THE DELIBERATIONS OF THE AGENCIES PARTICULARLY COMMERCE, STATE, USTR, AND THE SBA. IN AREAS LIKE STANDARDS AND TESTING OR RULES OF ORIGIN, SMALL BUSINESSES ARE MOST AT RISK BECAUSE OF THEIR LIMITATIONS ON BEING ABLE TO RESPOND TO RESTRICTIVE RULES AND THESE ARE THE TASK FORCE'S HIGHEST PRIORITIES.

IN THE TASK FORCE DELIBERATIONS, SMALL BUSINESS INTERESTS ENTER THROUGH ADVOCACY OF AGENCIES, BUT ALSO FROM THE PRIVATE SECTOR ADVISORY COMMITTEE STRUCTURE. INDUSTRY SECTOR ADVISORY COMMITTEES, INDUSTRY FUNCTIONAL COMMITTEES, THE ADVISORY COMMITTEE ON TRADE POLICY AND NEGOTIATIONS, AND THE RECENTLY ESTABLISHED ADVISORY COMMITTEE ON EC1992 STANDARDS ALL HAVE SIGNIFICANT SMALL BUSINESS REPRESENTATION FROM COMPANIES, THE NATIONAL FEDERATION OF INDEPENDENT BUSINESS, AND TRADE ASSOCIATIONS.

ONCE A PARTICULAR CONCERN IS RAISED, IT IS RAPIDLY DISCUSSED AT THE POLITICAL LEVEL. WHEN AN INTERAGENCY CONSENSUS IS REACHED, A DIPLOMATIC PROTEST IS UNDERTAKEN IF NECESSARY. SO FAR, THIS SYSTEM HAS BEEN VERY EFFECTIVE. THE GROUP HAS JUST FINISHED PREPARING POSITION PAPERS ON SEVERAL ISSUES. THAT DOCUMENT IS CURRENTLY BEING PRINTED, AND WILL BE AVAILABLE TO THE PUBLIC IN MID-APRIL.

LET ME NOW DESCRIBE THE PROGRAMS COMMERCE HAS DEVELOPED TO HELP THE U.S. BUSINESS COMMUNITY TO RESPOND TO THE OPPORTUNITIES RESULTING FROM 1992. OUR THREE-TIERED PROGRAM CONSISTS OF:

FIRST, A MARKET DEVELOPMENT AND EXPORT PROMOTION PROGRAM TO HELP SMALL AND MEDIUM-SIZE COMPANIES TO INCREASE EXPORTS TO AND INVEST IN THE EC.

SECOND, AN AWARENESS AND INFORMATION PROGRAM TO ALERT THE U.S. INDUSTRY, PARTICULARLY SMALL BUSINESSES, TO THE CHANGES TAKING PLACE IN EUROPE AND TO PROVIDE THEM WITH A ONE-STOP INFORMATION POINT.

THIRD, A PROBLEM-SOLVING PROGRAM TO DETERMINE WHICH EC DIRECTIVES COULD HAVE A NEGATIVE IMPACT ON U.S. COMPANIES, TO DISCUSS THESE ISSUES WITH PRIVATE SECTOR REPRESENTATIVES, AND TO ACT UPON OUR CONCLUSIONS BEFORE PROBLEMATIC DIRECTIVES ARE PASSED.

I HAVE BROUGHT DETAILED INFORMATION ABOUT THE DEPARTMENT'S EXPORT PROMOTION PROGRAM AND EXAMPLES OF SUCCESS STORIES. I WOULD LIKE TO HAVE THEM INCLUDED IN THE RECORD.

EXPORT PROMOTION

THE SMALL BUSINESS EXPORTER'S FIRST STOP SHOULD BE THE DEPARTMENT'S US&FCS DISTRICT OFFICE IN LOCALITIES THROUGHOUT THE COUNTRY. THE US&FCS IS THE PREMIER AGENT FOR THE DELIVERY OF FEDERAL PROGRAMS TO DISTRIBUTE TRADE INFORMATION AND OPPORTUNITIES. WE WORK CLOSELY WITH REGIONAL STATE AND PRIVATE SECTOR TRADE PROMOTION PROGRAMS. THE US&FCS HAS A WEALTH OF RESOURCES. WE WORK CLOSELY WITH THE SBA AND OTHER ORGANIZATIONS TO DEVELOP OPPORTUNITIES FOR SMALL BUSINESS EXPORTERS.

TO ASSIST AND ENCOURAGE SMALL- AND MEDIUM-SIZE BUSINESSES TO TAKE ADVANTAGE OF THE CHANGING MARKETING OPPORTUNITIES IN EUROPE, THE DEPARTMENT HAS DEVELOPED AN EXPORT PROMOTION PROGRAM ESPECIALLY TARGETED AT EUROPE. WE NAMED THE PROGRAM "EUROPE NOW" TO EMPHASIZE THAT U.S. COMPANIES CANNOT AFFORD TO WAIT UNTIL 1992 TO TAKE ADVANTAGE OF THESE OPPORTUNITIES. LAST NOVEMBER, WE PUBLISHED A BOOKLET HIGHLIGHTING SPECIFIC PRODUCT AREAS WHICH OFFER GOOD EXPORT OPPORTUNITIES IN EUROPE AND DESCRIBING MARKET SITUATION IN EACH EC COUNTRY.

OVER 4,000 COMPANIES RESPONDED TO OUR "EUROPE NOW 1992" MASS MAILING AND HAVE BEEN CONTACTED BY INTERNATIONAL TRADE OR INDUSTRY SPECIALISTS. WE SEND A QUARTERLY "EUROPE NOW" NEWSLETTER TO ALL PARTIES WHICH HAVE EXPRESSED INTEREST.

UNDER THE "EUROPE NOW" PROGRAM, WE HAVE DEVELOPED A REGULAR CLIENT RELATIONSHIP BASIS WITH OVER 200 SMALLER U.S. FIRMS WHICH WANT TO START EXPORTING TO EUROPE. INDIVIDUAL SUCCESS STORIES RANGE FROM ANNUAL SALES OF \$10,000 TO \$3 MILLION OVER THE PAST 18 MONTHS.

LAST YEAR DURING "WORLD TRADE WEEK", THE FOCUS ALL AROUND THE UNITED STATES WAS EC1992. ALL STATE AND OTHER LOCAL DEVELOPMENT OFFICES DISSEMINATED INFORMATION ABOUT AVAILABLE COMMERCE SERVICES AND PROGRAMS. AS YOU KNOW, THIS EVENT IS MOSTLY TARGETED TO SMALL BUSINESSES. THIS YEAR DURING "WORLD TRADE WEEK", THE THIRD WEEK OF MAY, THE DEPARTMENT, THROUGH OUR DISTRICT OFFICES AROUND THE COUNTRY, IS ORGANIZING APPROXIMATELY 70 EVENTS TO ENCOURAGE U.S. BUSINESSES TO CONSIDER EXPORTING TO FOREIGN MARKETS. ABOUT HALF OF THOSE EVENTS WILL BE SPECIFICALLY TARGETED TOWARDS SMALL BUSINESSES (15) OR TOWARDS EUROPE (22).

TO UNDERLINE THAT U.S. COMPANIES WHICH MAKE SPECIAL EFFORTS TO EXPORT ARE NOT ONLY HELPING THEMSELVES BUT ALSO THEIR COUNTRY, THE DEPARTMENT HAS LAUNCHED AN "E" AWARD PROGRAM. THIS IS A PROGRAM DEFINITELY TARGETED TOWARDS SMALL BUSINESSES.

A LARGE NUMBER OF THE DEPARTMENT'S EXPORT PROMOTION PROGRAMS ARE TARGETED TOWARD SMALL, NEW-TO-EXPORT COMPANIES AND ARE WIDELY USED TO ENCOURAGE EXPORTS TO EC COUNTRIES. FOR EXAMPLE, THE COMPARISON SHOPPING SERVICE, A SIMPLE, MARKET RESEARCH SURVEY OF COMPETITION IN SELECTED MARKETS, IS PARTICULARLY USEFUL TO SMALL AND MEDIUM-SIZED BUSINESSES, BECAUSE OF ITS COMPARATIVELY LOW COST AND HIGH QUALITY, PRACTICAL INFORMATION. CSS ORDERS HAVE INCREASED BY 20% TO THE EC IN FY 1989 OVER FY 1988 AND CONTINUE TO RISE.

ANOTHER INDICATION OF RAPIDLY EXPANDING ACTIVITY IN EUROPE IS REFLECTED IN THE GROWTH OF THE DEPARTMENT'S AGENT DISTRIBUTOR SERVICE (ADS). U.S. FIRMS USE THIS PROGRAM TO FIND QUALIFIED EUROPEAN AGENTS INTERESTED IN DISTRIBUTING U.S. PRODUCTS. THE NUMBER OF ADS REQUESTS FOR EUROPE GREW FROM 1,330 IN FY88 TO 1,586 IN FY89, ALMOST A 20% INCREASE. THE ADS PROGRAM RANKS NUMBER ONE IN IMPORTANCE AMONG ALL TRADE CONTACT ASSISTANCE SERVICES. FURTHERMORE, NO COMPARABLE SERVICE IS AVAILABLE FROM THE PRIVATE SECTOR.

COMMERCIAL NEWS USA CATALOG/MAGAZINE MAKES A BIG IMPACT ON THE EUROPEAN MARKET FOR SMALL U.S. BUSINESSES (60% OF ALL PARTICIPANTS). FOR \$250 ONLY, A FIRM CAN LIST ITS PRODUCT AND REACH 40,000 EUROPEAN READERS, AS WELL AS AN ADDITIONAL 70,000 WORLDWIDE.

WE ALSO HAVE A MATCHMAKER TRADE DELEGATIONS PROGRAM. THESE DELEGATIONS ARE SIMILAR TO TRADE MISSIONS, BUT ARE GENERALLY LARGER (ABOUT 20 U.S. FIRMS EACH) AND LOWER IN PRICE (BETWEEN \$1,200 TO \$1,600 ON PARTICIPATION FEES). ALL PARTICIPANTS MUST BE NEW-TO-MARKET FIRMS SEEKING CONTACT WITH AGENTS, DISTRIBUTORS, LICENSEES OR JOINT-VENTURE ARRANGEMENTS. IN FY 1989, EIGHT OUT OF THE TEN MATCHMAKERS DEVELOPED TOOK PLACE IN EUROPE.

AS AN INDICATION OF OUR SUCCESSFUL EFFORTS IN PROMOTING THE WESTERN EUROPEAN MARKET WITHIN THE AMERICAN SMALL BUSINESS COMMUNITY, THE NUMBER OF ADS REQUESTS FOR EUROPE AMOUNTED TO 970 FOR THE FIRST THREE QUARTERS OF THIS FISCAL YEAR -- A 53 PERCENT INCREASE OVER THE SAME PERIOD FOR 1987.

OUR EXPORT PROMOTION PROGRAM ALSO INCLUDES A GROWING RANGE OF "MATCHMAKER" SHOWS IN EUROPE TO HELP BUSINESS FIND DISTRIBUTORS, AGENTS, OR OTHER EUROPEAN CONTACT POINTS. DURING MATCHMAKER EVENTS, WE SCHEDULE ADVANCE APPOINTMENTS FOR APPROXIMATELY 30 REPRESENTATIVES OF A SPECIFIC SECTOR WITH POTENTIAL EUROPEAN CUSTOMERS, AGENTS AND DISTRIBUTORS. DURING THE PAST TWO YEARS, ALL PARTICIPANTS IN MATCHMAKERS EVENTS WERE SMALL AND MEDIUM-SIZE FIRMS. IN FISCAL YEAR 1988, 176 FIRMS PARTICIPATED.

WE HAVE ADJUSTED OUR TRADE PROMOTION AND BUSINESS COUNSELLING PROGRAMS TO REFLECT DIFFERENT APPROACHES TO INTERNATIONAL BUSINESS. INTERNATIONAL DEALS ARE GETTING MORE AND MORE COMPLEX. COMPANIES ARE NOW SIGNING CROSS-LICENSING AGREEMENTS, BARTER AGREEMENTS, OR JOINT-VENTURE AGREEMENTS. WE HAVE DEVELOPED NEW MODELS TO ADJUST TO THESE CHANGING CONDITIONS.

COMMERCE ALSO HAS ALSO DEVELOPED EXTENSIVE TIES WITH MOST STATES' TRADE DEVELOPMENT OFFICES THROUGH COOPERATION PROGRAMS, WHERE THEY WORK DIRECTLY WITH OUR DOMESTIC TRADE OFFICES. WE ALSO HAVE A SPECIAL AGREEMENT WITH THE NASDA (NATIONAL ASSOCIATION OF STATE DEVELOPMENT AGENCIES) TO EXPAND COOPERATION AND CO-SPONSOR EVENTS TO THE MAXIMUM POSSIBLE. WE ALSO WORK WITH CITIES' DEVELOPMENT OFFICES AS WELL AS REGIONAL ONES AND PRIVATE ORGANIZATIONS. WE WANT THE BUSINESS COMMUNITY NOT ONLY TO BE AWARE OF THE EC 1992 PROGRAM, BUT ALSO TO CONSTANTLY KEEP IN TOUCH WITH OUR OFFICES. THIS COOPERATION ASPECT SO IMPORTANT TO US THAT WE HAVE MADE IT A PART OF THE WORK PLAN FOR ALL OUR DOMESTIC OFFICES.

THIS BRINGS ME TO DISCUSS "EXPORT EXPO '90", A TRADE PROMOTION EVENT CO-SPONSORED BY SBA AND ATT, WHICH WILL BRING TOGETHER U.S. SMALL BUSINESS, EXPORTERS AND FOREIGN BUYERS. THE FOUR-DAY EVENT STARTED YESTERDAY, MARCH 27, AND WILL CONSIST OF THREE MAJOR ATTRACTIONS: EXPORT-EXPO TRADE FAIRS, WORKSHOPS, AND POLICY PROGRAMS/SESSIONS.

THREE HUNDRED BOOTHS WILL OFFER INFORMATION ABOUT INTERNATIONAL TRADE OPPORTUNITIES: 250 PRODUCT EXHIBITORS, 40 SERVICE COMPANIES, AND 20 STATE INTERNATIONAL TRADE DEVELOPMENT AGENCIES. OVER 270 FOREIGN BUYERS FROM 27 COUNTRIES HAVE REGISTERED FOR "EXPORT/EXPO '90". SBA EXPECTS A TOTAL OF OVER 500 PARTICIPANTS.

COMMERCE ALSO HAS A MEMORANDUM OF UNDERSTANDING WITH THE SMALL BUSINESS ADMINISTRATION, WHEREBY WE HELP THEM SET UP SMALL BUSINESS DEVELOPMENT CENTERS. WE ARE ALSO HELPING THE SMALL BUSINESS ADMINISTRATION PUBLICIZE THEIR LINE OF CREDIT PROGRAM.

IN OTHER WORDS, WE HAVE CREATED A WEB OF INTERGOVERNMENTAL ACTIVITIES AND ARE CRISSCROSSING THE ENTIRE COUNTRY. WE HAVE DEVELOPED A SYSTEM OF OVERLAPPING SAFEGUARDS TO ENSURE U.S. FIRMS ARE AWARE OF THE 1992 PROGRAM AND AT LEAST KNOW WHERE THEY CAN OBTAIN FURTHER INFORMATION.

AWARENESS PROGRAM:

AT THE CENTRAL PART OF OUR INFORMATION AND AWARENESS PROGRAM ON EC 1992, WE CREATED A ONE-STOP SERVICE THE "SINGLE INTERNAL MARKET INFORMATION SERVICE"- SIMIS- TO PROVIDE INFORMATION, ANALYSIS AND ADVICE TO U.S. COMPANIES.

INTERNATIONAL TRADE SPECIALISTS IN THE SIMIS OFFICE GIVE DETAILED INFORMATION ON SPECIFIC DIRECTIVES, AS WELL AS GENERAL INFORMATION ON 1992, BUSINESS COUNSELLING, ASSISTANCE IN RAISING PROBLEMS WITH THE EC, AND REFERRAL TO DOC COUNTRY DESK OR INDUSTRIAL SPECIALISTS. OVER 15,000 INDIVIDUALS HAVE CONTACTED OUR SIMIS OFFICE. MOST OF THESE ARE SMALL AND MEDIUM SIZED BUSINESSES SEEKING DETAILED COMMERCIAL INFORMATION ON 1992 REGULATIONS, THE SINGLE MARKET, AND MARKET OPPORTUNITIES.

WE RECENTLY CONDUCTED A SURVEY OF CALLERS AND FOUND THAT:

72% OF CALLERS ARE FROM SMALL FIRMS (LESS THAN 100 EMPLOYEES);

25% OF OUR CALLERS HAVE CALLED OUR OFFICE BEFORE;
APPROXIMATELY 70% OF THE CALLS WE RECEIVE REQUIRE FOLLOW-UP (RESEARCH/MAILING)

WE HAVE OVER 6,000 FIRMS ON OUR MAILING LIST. WE SHARE THE NAMES AND ADDRESSES OF THESE COMPANIES WITH OUR "EUROPE NOW" OFFICE-- OUR TRADE PROMOTION PROGRAM TARGETED TO HELP INCREASE U.S. EXPORTS TO EUROPE.

ALL THOSE COMPANIES RECEIVE OUR QUARTERLY NEWSLETTER ON EC 1992, WHICH GIVES READERS UPDATES IN EC DEVELOPMENTS AND ENCOURAGES THEIR PARTICIPATION IN THE DEPARTMENT'S MARKETING PROMOTION ACTIVITIES AND SEMINARS. OUR FIFTH NEWSLETTER, WHICH IS 12-PAGES LONG, WILL BE GOING TO THE PRINTER SHORTLY. I HAVE INCLUDED A COPY ATTACHED TO MY TESTIMONY AS WELL AS OTHER OUTREACH MATERIALS PREPARED BY STATE AND USTR.

WE HAVE ALSO DONE MASS MAILINGS TO PUBLICIZE OUR SERVICES AND THE OPPORTUNITIES PRESENTED BY THE SINGLE EUROPEAN MARKET AND HAVE REACHED OVER 100,000 BUSINESSES AND INDIVIDUALS.

IN ADDITION, SINCE JUNE OF 1988 WE CONDUCTED 220 SEMINARS AROUND THE COUNTRY IN COORDINATION WITH OUR DISTRICT OFFICES AND SPECIFICALLY TARGETED THEM TO SMALL BUSINESSES; WITH AN AVERAGE OF 75 ATTENDEES PER SEMINAR, THAT MEANS WE HAVE TALKED TO 16,500.

IN ALL AWARENESS EFFORTS, WE WORK VERY CLOSELY WITH TRADE ASSOCIATIONS AND STANDARDS GROUPS AS THEY CAN DISSEMINATE INFORMATION PERTINENT TO THEIR INDUSTRY AND INFORM THEIR MEMBERS ABOUT OUR SERVICES. WE ALSO ACCEPT THE VAST MAJORITY OF SPEAKERS' REQUESTS FROM TRADE ASSOCIATION, AS THIS ALLOWS US TO REACH MORE COMPANIES IN ONE SINGLE TIME. THIS IS ONE MORE TRY TO REACH SMALL BUSINESSES WE HAVE NOT BEFORE THROUGH OUR OTHER OUTREACH EFFORTS.

WE ARE ALSO WORKING WITH THE NATIONAL TECHNICAL INFORMATION SERVICE, A PRIVATE SECTOR ORGANIZATION, TO COORDINATE SEMINAR PROGRAMS . THESE CONFERENCES WOULD BE HELD AROUND THE COUNTRY AND WOULD TAKE A SECTORIAL APPROACH. WE EXPECT THIS PROGRAM TO START BEFORE THE END OF THE YEAR.

WE ARE ALSO IDENTIFYING EMERGING OPPORTUNITIES FOR THE PRIVATE SECTOR, HOWEVER IT IS THEIR FINAL DECISION AND RESPONSIBILITY TO TAKE ADVANTAGE OF THOSE OPPORTUNITIES.

ANOTHER PART OF THE COMMERCE DEPARTMENT, THE NATIONAL INSTITUTE FOR STANDARDS AND TECHNOLOGY (NIST), HAS ALSO BEEN ACTIVELY INVOLVED IN 1992. NIST HAS CONTACTED OVER 100 VOLUNTARY STANDARDS ORGANIZATIONS TO INFORM THEM OF THE DEVELOPMENTS IN EUROPEAN STANDARDS. NIST IS ABOUT TO ESTABLISH A STANDARDS INFORMATION LINE TO INFORM CALLERS OF THE STATUS OF DIRECTIVES RELATED TO EC STANDARDS.

NIST IS ALSO GATHERING AND CATALOGUING AS MUCH INFORMATION ON STANDARDS AS POSSIBLE FROM THE THREE EUROPEAN STANDARDS BODIES TASKED TO DEFINE 1992 NORMS. SO FAR, THE NIST PROGRAM HAS BEEN VERY WELL RECEIVED BY THE U.S. STANDARDS COMMUNITY AND ESPECIALLY BY SMALL BUSINESS WHO HAD PROBLEMS OBTAINING SUCH INFORMATION PREVIOUSLY.

IN COORDINATION WITH SBA AND THE FEDERAL LABORATORY CONSORTIUM, NIST IS ALSO SPONSORING A SERIES OF CONFERENCES TO PROVIDE ADDITIONAL TECHNICAL ASSISTANCE TO THE SMALL BUSINESS DEVELOPMENT CENTERS' TECHNICAL OUTREACH STAFF AND THEIR SMALL BUSINESS CLIENTS. THE SYMPOSIA WILL FOCUS ON ACCESSING FEDERAL AGENCY AND LABORATORY TECHNOLOGY THAT MAY INCREASE U.S. COMPETITIVENESS AND PREPARING FOR THE CHANGING BUSINESS

ENVIRONMENT OF THE 1990'S. INITIALLY, THE PROGRAM WILL BE TESTED IN FOUR STATES (WASHINGTON, NORTH DAKOTA, INDIANA, MASSACHUSETTS).

FINALLY, THE U.S. MISSION TO THE EC IS HELPING THE AMERICAN CHAMBER OF COMMERCE IN BELGIUM CREATE A NEW EUROPEAN COMMUNITY INFORMATION SERVICES SUBCOMMITTEE. THIS IS INTENDED TO HELP PROVIDE INFORMATION SERVICES IN THE AREAS OF THE EC INSTITUTIONS AND THEIR LAWS AND REGULATIONS TO AMERICAN SMALL AND MEDIUM-SIZED ENTERPRISES WHO REQUEST ASSISTANCE FROM THE AMERICAN CHAMBER IN BRUSSELS. THEY WILL ALSO SET UP A HOTLINE TO REFER CALLS FROM SMALL BUSINESS. WE ARE COORDINATING THIS PROJECT WITH THE CHAMBER, AS IT SHOULD HELP US MEET THE EVER-GROWING DEMAND FOR INFORMATION ON EC 1992.

PROBLEM-SOLVING PROGRAM:

ITA AND NIST HAVE HELD OVER 17,000 COUNSELLING SESSIONS ON THE TELEPHONE OR IN PERSON, COUNSELLING COMPANIES ON THE IMPACT OF THE 1992 PROGRAM ON THEIR INDUSTRY, AND LEARNING ABOUT THEIR CONCERNS WITH SPECIFIC EUROPEAN DIRECTIVES.

TO ANALYZE THE IMPACT OF EC 1992 ON PARTICULAR INDUSTRIAL SECTORS AND TO IDENTIFY SPECIFIC PROBLEMS, THE DEPARTMENT IS WORKING WITH OVER 100 TRADE ASSOCIATIONS. ONCE PROBLEMS ARE IDENTIFIED, THEY ARE DISCUSSED IN ONE OF THE INTERAGENCY SUBGROUP MEETINGS ON 1992 IF NECESSARY.

A U.S. GOVERNMENT POSITION IS THEN ADOPTED, AND A POSITION PAPER IS FORWARDED TO BRUSSELS FOR THE U.S. MISSION TO DISCUSS OUR CONCERNS WITH EC OFFICIALS. THE COMMERCE DEPARTMENT IS WORKING WITH OTHER AGENCIES, PARTICULARLY THE STATE DEPARTMENT AND USTR, AS WELL AS THE SMALL BUSINESS ADMINISTRATION, TO ENSURE THAT PROBLEMS ARE TACKLED BEFORE FINAL DECISIONS ARE TAKEN BY THE EC. TO BETTER SUPPORT THAT EFFORT, COMMERCE HAS PROPOSED TO ADD THREE FULL-TIME EMPLOYEES IN BRUSSELS. OUR FIRST COMMERCE REPRESENTATIVE SHOULD BE IN BRUSSELS IN THE NEXT THREE MONTHS.

IN COORDINATION WITH ASSOCIATIONS AND AGAIN WITH THE HELP OF OTHER U.S. GOVERNMENT AGENCIES, INCLUDING THE SBA, LAST YEAR COMMERCE PUBLISHED TWO BOOKS ANALYZING A TOTAL OF 120 DIRECTIVES AFFECTING INDUSTRIAL TRADE, PROCESSED FOODS AND SELECTED ASPECTS OF COMPANY LAW. THE LAST VOLUME WILL BE PUBLISHED NEXT MONTH AND WILL FOCUS ON GOVERNMENT PROCUREMENT AND OTHER DIRECTIVES NOT PREVIOUSLY ANALYZED. (THE AGRICULTURE DEPARTMENT IS REVIEWING AGRICULTURAL DIRECTIVES AND TREASURY IS ANALYZING FINANCIAL SERVICES DIRECTIVES.)

AS THIS PROBLEM-SOLVING PROCESS IS BASED TO RUN IN INPUT FROM THE BUSINESS COMMUNITY, THE INTERAGENCY TASKFORCE HAS PUBLISHED A BOOKLET ON U.S. GOVERNMENT RESOURCES. IT GIVES A BRIEF OVERVIEW OF THE SINGLE INTERNAL MARKET PROGRAM, A DESCRIPTION OF THE INTERAGENCY TASKFORCE, AND A LIST OF U.S. AND EC CONTACT POINTS.

CONCLUDING STATEMENT:

MADAME CHAIRMAN, IN CONCLUDING MY REMARKS LET ME STATE AGAIN THAT WE ARE GENERALLY OPTIMISTIC ABOUT 1992.

WE WANT BUSINESS TO TAKE ADVANTAGE OF THE DECREASING DIFFICULTIES IN MARKETING TO THE DYNAMIC EUROPEAN MARKET AND EXPAND THEIR OPERATIONS IN AND WITH EUROPE. WHILE U.S. COMPANIES WILL NOT BE REQUIRED TO INVEST IN THE EC TO BENEFIT FROM THE 1992 PROGRAM, THEY MUST FACE THE COMPETITIVE CHALLENGE BY REEXAMINING THEIR BUSINESS STRATEGIES AND TAKING STEPS TO MAKE THEMSELVES MORE COMPETITIVE.

SMALL BUSINESSES' MAIN HURDLE IS GOING TO REMAIN, ALMOST BY DEFINITION, THEIR LIMITED RESOURCES, NOT A LACK OF EASILY AVAILABLE INFORMATION, NOT A LACK OF OPPORTUNITIES.

WE DO HAVE SOME CONCERNS ABOUT PROTECTIONISM THAT WE NEED TO WORK OUT WITH THE EC. SO FAR, WE HAVE TAKEN A PROACTIVE AND POSITIVE APPROACH WITH OUR EUROPEAN COLLEAGUES, AS IT IS IN OUR INTEREST FOR A UNIFIED EUROPE TO SUCCEED. IN MOST CASES, THIS ATTITUDE HAS WORKED. I BELIEVE HAVING THREE COMMERCE OFFICERS IN BRUSSELS WILL TREMENDOUSLY HELP COMMERCE IN REPRESENTING U.S. BUSINESSES' INTEREST BEFORE THE EUROPEAN COMMUNITY.

U.S. INDUSTRY, ESPECIALLY SMALL AND MEDIUM-SIZE BUSINESS, CAN COUNT ON THE COMMERCE DEPARTMENT TO HELP THEM RESPOND TO THE CHALLENGES AND OPPORTUNITIES OF EC 1992.

THANK YOU.

ANSWERS TO SENATOR LARRY PRESSLER'S QUESTIONS
TO CHARLES LUDOLPH
THE SENATE SMALL BUSINESS COMMITTEE ON EXPORT
EXPANSION TO THE EC
MARCH 28, 1990

1. QUESTION Mr. Ludolph, I recently attended a hearing on legislation to further develop international trade markets in Eastern Europe. What is the general reaction of the countries of the EC to the recent events in Eastern Europe? Are they rushing to establish business ties? Is this primarily a case of private businesses moving into Eastern Europe, or is it driven by Western European governments.

ANSWER: The European Community has undertaken a concerted effort to broaden commercial ties with Eastern and Central European countries that show progress in the democratization of their societies. The EC has already concluded trade and cooperation agreements with Hungary, Poland, Czechoslovakia, and the Soviet Union as well as a special agreement with East Germany. These agreements will likely be followed by special "association agreements" which would further deepen the economic and political ties with East European countries.

West European governments, like the United States, are supportive of their firms' efforts to expand trade and investment with Eastern Europe. Many West European firms have a long history of doing business in Eastern Europe and have been encouraged by recent events to establish closer ties to these markets.

2. QUESTION South Dakota has many small businesses, but few are able to export their products because of costly research and other expenses involved in such an effort. What SBA or other programs are available to financially assist this group of small businesses?

ANSWER The U.S. government administers a number of programs intended to lend assistance to small business exporters. Exporters loan and loan guarantees are available from the Small Business Administration, export promotion of agricultural exports as well as financing are paid for by the Department of Agriculture, the Export-Import Bank supports exports through loan and loan guarantee programs, and the State Department's Trade and Development Program finances feasibility studies for infrastructure projects.

Aside from these forms of financial assistance, the International Trade Administration has developed a highly effective and diverse program of export development initiatives, including market research, that are available to small business at a very modest cost through the district offices of the U.S. and Foreign Commercial Services.

3. QUESTION: I have heard that if you are a small businessman and haven't already begun exporting to the countries of the EC, it is already too late. Do you agree with that statement?

ANSWER: No, I do not agree that it is too late for small business exporters to do profitable business in the EC. U.S. exports to the European Community grew by \$34 billion in the four years 1986-1989. While a portion of this growth was from large sales of aircraft and computers, a substantial portion reflects the success of hundreds of small business exporters competing for market opportunities in the European Community. There is nothing inherent in the EC 1992 program that will change the competitiveness of U.S. small business exports in the majority of products. While there are some problem areas for U.S. business, on the whole, Europe is a very good market and will remain so for the foreseeable future.

Senator MIKULSKI. Mr. Ludolph, thank you very much for a comprehensive testimony. Actually, we allowed you to go on for more than we had originally planned, but I thought it was so comprehensive, and it gave a nice overview.

Before we turn to the people who actually face the problems, the Chair wishes to acknowledge the fact that Senator Kit Bond is here. Senator, we are going to go through the whole panel and then ask questions.

Did you have an opening comment?

**STATEMENT OF HON. CHRISTOPHER S. BOND, A U.S. SENATOR
FROM THE STATE OF MISSOURI**

Senator BOND. Madam Chairman, I regret that the schedule today has me in six different places at once. This is a subject of great interest to me. In my prior incarnation I spent a good bit of my time as Governor of the State of Missouri working to assist small business to get into the export business. I am very pleased in looking over the testimony to see what the State of Maryland has done.

I believe that we can do a lot better job of assisting exporters. I have introduced legislation that would strengthen and beef up the U.S. and FCS, provide more assistance through the Ex-Im Bank for adequate finance support, and getting a real commitment from the Administration.

I would like to submit a full statement for the record.

Senator MIKULSKI. Without objection, so ordered.

Senator BOND. I assure you that I look forward to reviewing all the testimony and the questions and answers because I think there are opportunities for us to do a much better job than we have been doing. I commend those who are working on it, and I particularly thank you for holding this hearing.

[The prepared statement of Senator Bond follows:]

STATEMENT OF SENATOR BOND

MARCH 28, 1990

Thank you Madame Chairman. I am pleased that we are holding this hearing today. Certainly, the consolidation of the European economies in 1992 presents both challenge and opportunity for American small businesses. Congress, the Commerce Department, the Small Business Administration and the individual States need to be taking the steps necessary to assist businesses in cracking the European market and particularly in ensuring that they are not unfairly excluded. But it is important to remember that that is not enough. We need to provide businesses with the assistance and support they need to do business overseas -- not just in Europe, but all over the globe. This means providing resources to the US & Foreign Commercial Service so that it can fulfill its role of counseling exporters, helping them find and pursue trade leads, and closing deals. It means providing adequate financing and finance support through the Eximbank and other agencies. And it means a commitment on the part of the President and his administration to make expanding exports a top priority of our nation's foreign and domestic policies.

I have introduced legislation to address some of these problems and I plan to continue to look for opportunities to address the fact that we have not been doing a good enough job of supporting our small exporters. Hearings such as this one are important because they give us the opportunity to discuss these issues and move to improve our efforts to increase our foreign markets. Unfortunately I am unable to stay at the hearing because

of conflict but I look forward to reading the comments of the witnesses.

Senator MIKULSKI. Thank you, Senator.

Now we are going to turn to Mr. O'Hagan from the Valve Manufacturing Association of America. This is a trade association of small business which has been quite aggressive and, I understand, rather successful in exporting.

Mr. O'Hagan, we look forward to your statement.

STATEMENT OF MALCOLM E. O'HAGAN, PRESIDENT, VALVE MANUFACTURING ASSOCIATION OF AMERICA, WASHINGTON, DC

Mr. O'HAGAN. It is an honor to have this opportunity to testify before you this afternoon. I was actually born and raised in Ireland, a member state of the European Community, and I live in the wonderful State of Maryland and work in our Nation's capital.

I am president of the Valve Manufacturers Association of America, a national trade association representing over 19 manufacturers of industrial valves. The majority of our members export and have seen their exports increase significantly in the last couple of years. In 1989, for example, our exports amounted to \$730 million, of which \$200 million went to the European Community.

Forty-three percent of our members have sales under \$10 million, 45 percent have sales in the \$10 to \$15 million range, and only 12 percent have sales in excess of \$50 million, so I think it is fair to say that we are an association representing small businesses.

For our members over the years we have conducted a number of programs which have helped them to access foreign markets. We have an annual trade workshop which is very successful. We conduct trade missions to different countries, and I would like to come back to that in a minute because I feel that is one of the most effective ways of initial entry into a new market.

In June 1989 our association received an export trading certificate from the Department of Commerce, that provides our members with a certain degree of antitrust immunity and allows them to come together in consortiums to promote exports and access to foreign countries.

Quite candidly, I believe that the opportunities represented by the export trading certificate are quite limited. Our members are competitors and will remain competitors and are more used to competing than cooperating. There still remains a high degree of skepticism about the antitrust immunity that the ETC provides. However, we are happy to have it. It provides another mechanism for our members to get together should an opportunity arise to improve our chances of access in international markets.

Our next trade promotion activity now in the planning stages will be to participate in foreign trade shows as a group. The first show we have targeted is theACHEMA show in Frankfurt next June. Sixteen of our members have indicated an interest in participating in it. I believe that this will be a highly effective way for our members, particularly for the smaller companies in our association, to get a very good exposure in Europe.

On the issue of trade missions, they offer some advantages which I think are quite significant. Through a trade mission, a company has a chance to get access to key officials and to manufacturing plants, and it provides the participants with a chance, in a very

short time, to get a lot of information on the market firsthand by being there and to really determine, in a short time whether or not that market offers interest for them.

I would like to make a few comments on the pitfalls and barriers as I see them with regard to EC '92. Accessing the common market, to me, will be a significant challenge for American manufacturers. Many U.S. companies, including members of VMA, are already well established in Europe and have been for years. A local presence is by far the best way of accessing the market, but this is not possible for all companies for all markets.

Those manufacturers who are trying simply to export products to Europe will have to overcome some pretty formidable obstacles. The European Community is highly sophisticated. You have world class manufacturers in Germany, France, the UK and Italy. Consumers are highly educated and selective, and there are strong national preferences.

There are strong established European competitors in all markets in every country in Europe. They produce quality products, they are cost effective, they have established channels of distribution, and they have customer loyalty.

The metric system is the language of measurement in Europe. As long as we maintain our allegiance to the archaic English system, companies will be forced to convert their products from this system to the metric system to be marketable in Europe. The fact that we are not on the metric system puts us at other serious disadvantages which I will not go into at this time.

European product standards differ from American standards. This is largely attributable to the differences in the measurement systems. The emergence of a stronger regulatory regime will lead to the need for certification of many products not currently certified. It is likely that during the early years products will have to be certified by European laboratories. Ultimately, it may be possible to have products certified in the United States against European standards, but this is not a certainty.

Finally, the issue of domestic content is not yet resolved. To the extent that domestic content is required, it will be impossible to ship the final product from here to Europe.

In terms of strategy, understanding the market is obviously the first step. There is adequate information available from a number of sources. It is also necessary to go there after reviewing the literature to determine firsthand the best way to deal with the market.

As I indicated earlier, I believe that particularly for smaller companies if you have a State or national association and can get them to conduct a trade mission, that is by far the most cost effective way of actually going, seeing and determining whether or not you have an opportunity there.

Importantly, I think that a small company particularly should determine which country is most important to you as a market and focus your initial sales efforts on that market without regard to the rest of the European market.

In terms of recommendations for Congressional action, let me say that what is happening in Europe is extremely significant; therefore, I believe that it is important to ensure that all Members

of Congress understand the importance and implications of EC '92. Certainly this hearing this afternoon will help in that regard.

I would hope that the Congress would beef up Congressional support for agencies of the Government helping U.S. companies access the European market. In particular, additional support should be provided through the U.S. and Foreign Commercial Service of the Department of Commerce. This is by far the most effective trade promotion Agency in the Government based on our highly favorable experience. In China, India, and Mexico, we have received tremendous support from the Foreign Commercial officers at our embassies.

However, lack of funding is severely restricting the effectiveness of many of our Foreign Commercial officers. It is sad to note that the United States provides less support to its exporters than any other industrial nation. Congress should rectify this situation if it is serious about reducing our trade imbalance.

Encourage adoption of the metric system by agencies of the U.S. Government as required by the Omnibus Trade Bill.

Two other short items. Encourage the Department of Commerce to institute a program similar to the Export Now Program which was so effective during the previous Administration in stimulating interest in exports.

Finally, encourage the Secretary of Commerce to continue efforts to ensure that the Europeans retain transparency in the standards process and permit United States input in this critical area.

Thank you, Madam Chairman.

[The prepared statement of Mr. O'Hagan follows:]

EC 92 AND AMERICAN SMALL BUSINESS

Testimony of

Malcolm E. O'Hagan
President

Valve Manufacturers Association of America

before

Senate Small Business Committee

Export Expansion Subcommittee

Senator Barbara Mikulski, Chairman

March 28, 1990
Russell Senate Office Building, 428A

INTRODUCTION

Good Afternoon.

My name is Malcolm O'Hagan. It is an honor to have this opportunity to testify on EC 92 and the challenges it presents for American small businesses--a topic of importance and great interest to me. I was born in Ireland, a member state of the European Community. I now live in the wonderful state of Maryland and I work in our nation's capital.

I am President of the Valve Manufacturers Association of America--a national trade association representing over 90 manufacturers of industrial valves. The major user industries to which our members' products are sold are: water and wastewater treatment, chemical and petrochemical, oil and gas production, power generation, pulp and paper, and commercial construction. Our members account for 35 to 40 percent of the \$10 billion worldwide production of industrial valves. The majority of our members export and have seen their exports increase significantly in the last couple of years. In 1989 our exports amounted to \$730 million of which \$200 million went to the European Community. Many of our members have overseas operations of one sort or another. In a survey conducted in 1985 we found that 49 percent of our members owned plants in other countries, 22 percent had joint venture agreements and 19 percent had licensing agreements. There is no doubt in my mind that these numbers have increased in the last few years. Our principal competitors are in Europe--Germany, the UK, France and Italy--but there is also lots of competition from Japan and many other countries.

Although some of our members are divisions of large corporations such as Dresser, General Signal and ITT, the great majority are small businesses.



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Forty-three percent of our members have sales under \$10 million; 45 percent have sales in the \$10-50 million range; and only 12% have sales in excess of \$50 million.

VMA'S INTERNATIONAL TRADE PROGRAM

For some years now we have been directing our members' attention to the importance of international markets. Interest that was limited at first is now snowballing. To help our members understand and access foreign markets, we conduct a number of activities.

Each year we hold an International Trade Seminar at which we look at different segments of the world market, assess the business potential for our members in those markets and discuss the best ways of penetrating the markets. At this year's seminar held in New Orleans a couple of weeks ago we focused on Europe. A copy of the program will be provided to the Committee.

One of the most effective things we do is conduct trade missions to various countries. Our first trade mission was to Japan. This was followed by two trade missions to China, two trade missions to India and most recently a trade mission to Mexico. At the end of April I will be leading a trade mission to the Soviet Union and we are planning a mission to the East Block countries in September. I will come back to the subject of trade missions later on.

Six years ago we produced our first Catalog of American Valves which is updated every couple of years. It is designed specifically to promote our members' products overseas. It is distributed to all of our Foreign Commercial Offices through



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the Department of Commerce and is mailed to about 10,000 qualified specifiers and buyers of our products around the world. Our members advertise their products in the catalog and each company is limited to either two or four pages. In this way we prevent the larger companies from dominating and give the small companies fair exposure. A copy of our Catalog will be provided to the Committee.

In June 1989 our association received an export trading certificate (ETC) from the Department of Commerce. The certificate covers all of our members, allowing them to join together in export related activities with a degree of antitrust immunity. The most likely way in which we may take advantage of the ETC will be for a group of our members to join together to bid the entire valve package on large projects such as petrochemical plants or power plants. It will be up to one of our member companies to take the lead role as the prime bidder. We will then provide the coordination service, allowing the prime bidder to join with other VMA members in a consortium. Members have not yet taken advantage of the ETC and I have to say in all candor that I believe the ETC will be of very limited value. Despite what the law says, there is still a healthy skepticism and concern about the antitrust immunity. Moreover, American competitors do not have a tradition of working together and remain reluctant to do so. For an export trading certificate to be effective I believe it is necessary to set up an export trading company staffed with international trading experts. This requires a considerable investment which we have not been in a position to make and which our members have not encouraged. Nonetheless in the



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future the ETC may prove beneficial should our members identify the appropriate opportunities.

Our next trade promotion activity, now in the planning stages, will be to participate in major foreign trade shows as a group. The first show we have targeted is theACHEMA show which will be held in Frankfurt in April 1991. It is the largest chemical show in the world. With the movement toward a single market in Western Europe and the recent developments in Eastern Europe, this show will take on added significance. Sixteen of our member companies have already expressed an interest in exhibiting at the show, and we are planning to build our own pavilion to promote our members' products to the Europeans. I am confident that this will be a highly effective endeavor.

STRATEGIC TRADE MISSIONS

I believe that properly organized trade missions, what I like to refer to as strategic trade missions, are the most effective initial approach to a new market. Based on our experience I have developed a list of factors, or keys, which I believe contribute to an effective trade mission (a copy is attached to this statement). The more narrowly focused a trade mission, the more beneficial it will be. The Department of Commerce and many states take broad-based trade missions to various countries. There is little commonality of interest among the participants except at the macro policy level. By contrast, when a particular industry (such as the valve industry) undertakes a trade mission, all of the participants have almost



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identical interests right down to the working level; consequently the trade mission can be tailored to yield practical results. One of the greatest benefits of a trade mission is that it can provide access that an individual company would find hard to achieve. This is particularly true when the trade mission has been endorsed by the Department of Commerce. It then takes on an official status ensuring a good reception in the host country. For example, when we went to China we met with a number of key individuals who would not have been accessible to an individual company. We were also able to visit twelve factories, which would have been impossible for an individual to do. Through a trade mission a company can, in a short time, get a very good overall assessment of the market opportunities in a particular country. A decision can then be made whether or not to pursue the market. Another advantage of a trade mission is that the group has an opportunity to share their assessments. During the course of a trade mission we normally convene several times to discuss what we are hearing and what we are seeing. These discussions can be particularly helpful in clarifying one's thinking.

For small companies I believe that properly organized trade missions by their state or national trade association is one of the most effective means of assessing a new market. This is true in the case of the European Community.

IMPLICATIONS OF EC 92

The form of the European Community is still evolving and no one can say with full certainty what it will look like by January 1, 1993. Based on what has



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happened to date and what is being projected, one can make some generalizations on the implications for small businesses.

- The elimination of many legal barriers to trade within the Community will make it easier in principle to access all of the common market from one of the member states. Instead of having to deal with the variant regulations of twelve countries, one will have to deal with a single set of regulations thereby reducing the complexity of doing business in the common market. However, the practical application of this may be somewhat limited. The fact that a country will be required to provide legal access to its market does not mean that it will undertake an affirmative action program to have foreign products accepted by its citizens. It is probably fair to say that the Germans will still prefer German beer, the French still prefer French champagne and the British their steak and kidney pie. Customs die hard. The language barriers will remain, although we are fortunate that English is the language of business.
- The drive to the single market will stimulate increased business activity in Europe; there is already clear evidence of this.
- EC 92 will stimulate a restructuring of business in Europe with a host of mergers occurring across borders. For example, in the valve industry, one of the largest French companies was recently acquired by a German company.



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- One consequence of the increased business activity and restructuring will be the emergence of stronger competitors. This may be the most significant implication of EC 92 impacting not only those U.S. companies who are trying to compete in Europe, but also those that have a strictly U.S. orientation. You can be sure that the stronger competitors that emerge in Europe will be anxious to penetrate the U.S. market.
- There is already clear evidence that EC 92 is stimulating a stronger regulatory regime throughout the common market, particularly in the areas of health, safety and the environment. Many products not currently regulated will become regulated, and manufacturers will have to seek certification before their products will have access to the common market.
- The activities within the common market will spill over to the rest of Europe. The EFTA countries--Austria, Finland, Norway, Sweden, Switzerland--the East Block countries, and the Soviet Union will all be affected by what happens in the European Community. As one approaches the European Community it should be done within the much broader context of the whole of Europe.

PITFALLS AND BARRIERS

Accessing the common market will be a challenge for American manufacturers. Many U.S. companies, including members of VMA, are already well established in Europe and have been for years. A local presence is by far the most



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effective way of accessing any market, but this is not possible for all companies for all markets. Those manufacturers who are trying simply to export products to Europe will have to overcome some pretty formidable obstacles.

- The European Community is a highly sophisticated market. World class manufacturers exist in Germany, France, the UK and Italy. Consumers are highly educated and selective. Strong national preferences exist.
- There are strong, established European competitors in all markets in every country in Europe. They produce quality products, they are cost effective, they have established channels of distribution and they have customer loyalty.
- The metric system is the language of measurement in Europe. As long as we maintain our allegiance to the archaic English system, companies will have to convert their products from this system to the metric system to be marketable in Europe. The fact that we are not on the metric system puts us at other serious disadvantages which I will not go into at this time.
- European product standards differ from American standards. This is largely attributable to the difference in measurement systems. A one inch U.S. stud will not fit in a 25 millimeter German hole. The electrical systems are different as are the television systems.
- The emergence of a stronger regulatory regime will lead to the need for certification of many products not currently certified. It is likely that during the early years products will have to be certified by European laboratories.



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Ultimately it may be possible to have products certified in the U.S. against European standards, but this is not a certainty.

- The issue of domestic content is not yet resolved. To the extent that domestic content is required it will be impossible to ship the final product from here to Europe. Even without legal domestic content requirements one can expect a strong buy-European attitude just as a buy-American attitude exists in this country.

STRATEGY

How should a small business approach the European market? I offer the following suggestions:

- Understand the market. The first step in doing this is to gather as much information as possible relating to the markets for your particular product. This information is available from the Department of Commerce, from your industry's trade association in the U.S. and in Europe, from Chambers of Commerce in the various countries, from European embassies in Washington and our embassies in the European capitals. The information exists; it is a matter of assembling it and digesting it.
- Go there. After reviewing the literature and talking to trade experts at the above mentioned institutions, make a visit to Europe. As discussed earlier the most effective way to do this would be as a member of a trade mission.



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- Determine which country is most important to you as a market and focus your initial sales effort on this market. Selling directly through a good agent is the least expensive way to access the market. It requires the least investment, but it also gives you the least control. A good agent should have access to established distribution systems and should have valuable contacts. The selection of this agent is undoubtedly the most important part of the entire process.

A higher level of entry would be to establish your own sales office in the country selected. While this would provide you with more control, the way in which the office is staffed is critical. To be effective, the office would have to be staffed with nationals who are knowledgeable and have the proper contacts.

If you have the capital and commitment, then either a joint venture or a manufacturing plant may be feasible. The joint venture requires less capital than establishing your own manufacturing plant; it teams you up with an established entity, which is extremely valuable in providing you with instant access. However, you do not have total control. A trustworthy partner is the most essential element in a joint venture. Establishing your own manufacturing plant, while giving you full control, creates its own set of problems and is not a recommended first step. To be effective, the plant would have to be staffed by influential nationals. True, it would have the advantage of overcoming any domestic content restrictions and would provide you with the greatest long term returns; however, employment laws in



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Europe are highly restrictive, often creating difficult problems in the event that the venture is not successful.

RECOMMENDATIONS FOR CONGRESSIONAL ACTION

Developments in Europe today are significant and the impact, doubtlessly, will be felt worldwide. American companies wishing to do business in Europe need to get on the ball and position themselves to access the market and meet European competition. Even those who are not intending to take a stake in Europe need to be aware that they will be impacted here in the U.S. The following Congressional actions are recommended:

- Ensure that all members of Congress understand the importance and implications of EC 92.
- Beef up Congressional support for agencies of the government helping U.S. companies access the European market. In particular, additional support should be provided to the U.S. and Foreign Commercial Service of the Department of Commerce. This is by far the most effective trade promotion agency in the government based on our highly favorable experience. In China, India and Mexico we received tremendous support from the foreign commercial officers at our Embassies. However lack of funding is severely restricting the effectiveness of many of our foreign commercial officers. It is sad to note that the U.S. provides less support to its exporters than any industrial nation. The Congress should rectify this



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- situation if it is serious about reducing our trade imbalance.
- Encourage adoption of the metric system by agencies of the U.S. government as required by the Omnibus Trade Bill. This will have a beneficial spill-over effect into the private sector.
 - Encourage the Department of Commerce to institute a program similar to the Export Now program which was so effective during the previous Administration in stimulating interest in exports.
 - Encourage the Secretary of Commerce to continue efforts to ensure that the Europeans retain transparency in the standards process and permit U.S. input in this critical area.

I appreciate the opportunity to share these comments, which I hope will be helpful.

KEYS TO SUCCESS
IN
EFFECTIVE TRADE MISSION MANAGEMENT

- Have clearly enunciated objectives.
- Enlist the support of DOC.
 - Get IOGA status for your trade mission.
 - Use the information available from the country desk.
 - Rely on USFCS for in-country support.
- Leave the international travel arrangements to the individual delegates. Rendezvous at a designated time and place in the country and conclude the mission at a designated time and location.
- Schedule carefully to avoid weather extremes, national holidays and peak travel periods.
- Identify and work with a host organization.
- Provide full guidance to your host organization in scheduling meetings and in setting your itinerary. Be sure the program is set before you leave the U.S. and retain veto power over all arrangements. It is your agenda you want to satisfy, not theirs.
- If appropriate, publicize your mission in advance.
- While meetings with top level government officials are helpful and good protocol, be sure you get to mid-level management people where decisions are made.
- Be sensitive to the business constraints in the host country. In developing countries, lack of foreign exchange is a serious impediment and a straight selling mission is not effective. It is more productive to explore coproduction agreements, license agreements and joint ventures. It is also helpful if your members are willing to buy something from the host country since two-way trade is much more attractive.
- Charge delegates a fee to cover the association's out-of-pocket expenses and avoid criticism from members that only a few are benefiting from the program. Require a non-refundable deposit.

- Do not over schedule. Allow time for individual private meetings. Also build some flexibility into the itinerary to enable you to take advantage of opportunities that present themselves.
- You will not easily remember everyone you meet. Take photographs when you can and write daily records.
- Follow-up after the trade mission to maintain contacts and build on the accomplishments of the mission.
- To the extent possible, encourage direct communications between the foreign entities and your delegates. Keep the association out of the loop. In a country like China they may look at the association as a corporate business entity with members as divisions of the corporation, or they may perceive the association as a trading company. Be sure to clarify the association's role.
- Prepare a brochure containing photographs and appropriate information on all delegates. Include information on your association, a statement of your objectives and itinerary. Have it printed in the language of your host country.
- Do not create false expectations on the part of your members or those with whom you meet on the trade mission.

MALCOLM E. O'HAGAN, PRESIDENT

VALVE MANUFACTURERS ASSOCIATION OF AMERICA

MARCH 28, 1990

Senator MIKULSKI. Thank you, Mr. O'Hagan, for a very fine and crisp testimony. We will be coming back to you with some questions.

Before we move on to Mr. Skalka, the Chair wishes to note the presence of Senator Pressler of South Dakota.

Senator, as you know, we are holding hearings on EC '92 and the small business community. Did you have any opening comments?

**STATEMENT OF HON. LARRY PRESSLER, A U.S. SENATOR FROM
THE STATE OF SOUTH DAKOTA**

Senator PRESSLER. Madam Chairman, I do have an opening statement which I will place in the record in the interest of time. I also have some questions, because I think it is very important that we do get small business involved and give them a very high priority in terms of their capabilities of being involved in Europe.¹

I thank you very much for chairing this hearing.

[The prepared statements of Senators Pressler and Lieberman follow:]

¹ Questions and answers appear on page 35.

STATEMENT OF SENATOR PRESSLER

MARCH 28, 1990

Madam Chairman, I would like to thank you for scheduling this hearing today before the Senate Small Business Committee's Export Expansion Subcommittee. EC '92 presents new opportunities and challenges for all American businessmen. However, it is important to recognize the increasing number of opportunities for small and medium-sized businesses. As a member of this subcommittee, I will do everything I can to promote export expansion for U.S. small businesses.

The real question before us is, "How can we make the small businessman competitive in international markets, particularly in the countries of the EC?" It is well known that the large American corporations are more prepared to face the challenges ahead. General Electric, AT&T, and Westinghouse, for example, have been gearing up for a number of years for the EC '92 challenge. The small businessman must take a much greater financial risk than the large corporations when entering into these markets. He, or she, must target markets very carefully and be prepared for a long-term investment strategy.

The only way to achieve success in markets abroad is by becoming well educated about other countries and their markets. This means having a full understanding of potential tariff barriers, technical barriers, and cultural barriers. We look to the Department of Commerce to provide assistance to small businessmen with these matters. In addition, enacting legislation to help U.S. businessmen overcome trade barriers is an issue that we must discuss.

I look forward to the testimony of the witnesses here today and am looking forward to further educating myself on how I might better assist the small businessmen of South Dakota.

JOSEPH I. LIEBERMAN
CONNECTICUT
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ENVIRONMENT AND PUBLIC WORKS
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OPENING STATEMENT
SENATOR JOSEPH I. LIEBERMAN

EXPORT EXPANSION SUBCOMMITTEE HEARING ON EC '92

March 28, 1990

Madame Chairman, I want to commend you for calling this hearing today. As you know, the Committee held a hearing last week on business opportunities in Eastern Europe. This hearing is another important part of the picture about opportunities and obstacles available for American firms in the new Europe.

The U.S. Department of Commerce estimates that in 1989, direct investment by American firms in the European Community increased by 16%. This coupled with the new investment opportunities in Eastern Europe, is helping to put American companies in a better position to take advantage of the changing economic landscape in Europe.

One of the witnesses in last week's hearing on Eastern Europe, talked about using Eastern Europe as a beachhead for investment in the EC. This has the dual benefit of helping both the Eastern European nation where the investment takes place-- in this case Hungary-- and the American firm get a foothold in a highly competitive but potentially lucrative market.

What is particularly useful about both hearings is that this Committee is uniquely placed to address the concerns of small businesses. Small businesses can play an important role in Eastern Europe by bringing some vitality to the economies of

these crippled nations through job creation and by providing creative outlets for fledgling entrepreneurs.

I believe that with the help of the federal government that small businesses from the United States also have a chance of making a go of it in the EC. What I hope we take away from today's hearing are what kinds of problems are confronting American firms in their attempt to enter the EC and what federal programs are available to help these businesses. One further question I hope the hearing will shed some light on, is what more should we be doing to help.

Again, I want to commend you Madame Chairman for the leadership you are taking on this issue. I know this hearing will be useful not only for Senators but for the business community as well.

Senator MIKULSKI. Thank you, Senator. Without objection, your statement is in the record, and if for any reason you need to depart the right of your questions to be answered will be protected.

Senator PRESSLER. Thank you very much.

Senator MIKULSKI. Now I would like to turn to Mr. Skalka of Victor Stanley, Inc. in Calvert County, MD, where there are 45 employees. He makes some pretty stylish outdoor wooden benches. He has had a great success in exporting to Europe, and we would like to hear of his experiences, why he is a success, and did his own Government help him or were we a roadblock.

We are glad you could come up from Southern Maryland and look forward to your testimony.

**STATEMENT OF STANLEY SKALKA, PRESIDENT, VICTOR
STANLEY, INC., DUNKIRK, MD**

Mr. SKALKA. Thank you very much, Madam Chairman. I appreciate the opportunity to be here. My name is Stanley Skalka, and I am President of Victor Stanley, Inc. in Dunkirk, MD, in Calvert County. We were incorporated in the State of Maryland in 1962, and we have about 45 or 46 employees.

We have actually been exporting for more than 20 years, but the exporting that we have done in the past prior to about 3 years ago was very sporadic and based on a one-shot order. Our products might be specified in Canada or the Middle East or Central America, and when the project was being built the contractor would order the merchandise from us.

We manufacture outdoor street furniture such as benches, tables, waste receptacles and the like for commercial use. Several years ago we began to feel that the export market could be a legitimate extension of the domestic market. If we had distributors nationwide here, why could we not have distributors in other countries to avoid the one-shot order and to have someone out there every day selling our products.

We found a trade show in England.

By the way, following up on Mr. O'Hagan's comments, I have found in my experience that you do have to concentrate on one country, and I even think after EC '92 it is going to be the same.

England is the logical place to start. They speak our language there. We found a trade show that catered to our industry. We contacted the Maryland Department of International Trade which gave us assistance, both general and financial, to attend the trade show. We utilized the Agent Distributor Service at the U.S. Department of Commerce to attempt to locate companies in our industry that we would be interested in importing our products into the United Kingdom. I contacted 15 of these companies prior to this trade show in June 1988, and all 15 were negative.

I contacted all 15 companies whose names were given to us by the Department of Commerce Agent Distributor Service. Some of them met me at the trade show, and all of them declined to import our product.

However, also in following up on Mr. O'Hagan's comment about the need to be at a trade show, not 40 feet away was a company that manufactured lighting, everything from stadium lighting to

highway lighting to lamp posts and ballards. Lamp posts and ballards are street furniture. This is a company five times our size that has been in business for 65 years, and by an amazing coincidence they were looking for products like ours to incorporate into their merchandising plan.

Senator MIKULSKI. An American company?

Mr. SKALKA. They were looking for a company, not necessarily an American company. Many of our products are made out of wood, and they do not have much wood, much lumber in Europe. So we got together. That was in June 1988. I visited their plant. They sent someone over here to visit ours. We sent our first shipment to them in October 1988, and this fiscal year they will account for about 6 percent of our total company sales volume.

Senator MIKULSKI. So they were another exhibitor?

Mr. SKALKA. They were another exhibitor. I would have had no way of reaching them either through the Maryland Office of International Trade or through the—

Senator MIKULSKI. But by walking around at the trade show, you made your own contact?

Mr. SKALKA. Exactly. So I have to agree with Mr. O'Hagan, that it takes the same kind of legwork that you do over here. A businessman in Chicago would not hesitate to go to Florida or Seattle to spend a lot of time seeking a distributor, and the same thing has to be done over there.

The risks far outweigh the reward because when you find a distributor for a whole country you can cover that country, and you are covering a lot of people.

We did the same thing in France in September 1989. The same events occurred. The Maryland Office of International Trade actually did a survey for us, provided us with the names of companies in France. The U.S. Department of Commerce, the Agent Distributor Service, gave us the names of many companies. I contacted all of them. There was very little interest. We went to the trade show, and not 30 or 40 feet away was another company manufacturing playground equipment with agents all over France that was a perfect match. Our products complemented theirs. We have sold a couple of containers to them, and there are more on the way.

So I think the way to do it, no matter what EC '92 brings, will not change. It is going to have to be on a slow country-by-country approach because it has been successful for us, and I think as a small business it was the only way to go. You can speak only one language at a time, I think.

Exports this fiscal year for our company will account for probably about 12 percent of our total volume.

I would like to say a word about EC '92, also. In my limited knowledge of the subject, I would say that a vast economic force is in the making, and it is a double-edged sword for America because companies in Europe are streamlining themselves to compete in this market. They are going to look beyond Europe to the United States as a market for their product. It also offers an opportunity for American companies.

Euro Disneyland is being built outside of Paris, and the theme park will accommodate 50,000 people per day. That is just at the theme park. When you consider all the infrastructure that has to

be built, the hotels, streets, parks, transit, there is vast opportunity for companies in general, American and European, to compete in the market, but first they have to be there.

I would like to say in conclusion that I very much appreciate the opportunity to be here. I think that this subject is of vital importance to the American economy. I do not know how much longer the country can go on with the balance of trade deficit the way it is, and I think this will help.

Thanks very much.

[The prepared statement of Mr. Skalka follows:]

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Victor Stanley, Inc.
P.O. Drawer 330 - Brickhouse Road
Dunkirk, Maryland 20754-0330

SMALL BUSINESS EXPORTS TO EC

My name is Stanley Skalka, and I am president of Victor Stanley, Inc. which is located in Dunkirk (Calvert County), Maryland. I am co-founder of our Company, which was incorporated in the State of Maryland in 1962. Victor Stanley, Inc. is jointly owned by myself and my brother, Mr. Gerald Skalka. We manufacture site furniture, such as tables, benches, waste receptacles, etc. for commercial applications. Such applications include city streets, park and recreation areas, office buildings, hospitals, colleges and universities, and wherever commercial street furniture is desired.

Our products are constructed utilizing steel, or a combination of wood and steel. We are a small company, with approximately 47 employees.

We have been exporting for more than 20 years. Our initial export activities centered around Canada, but then branched out into other areas including the Middle East, the Caribbean, and South America. These initial export activities were on a one-shot basis. In other words, our products were specified for use in projects in countries located in these areas, and when the projects were being built, our products were ordered.

It was always very beneficial for us to obtain these foreign orders, because they were profitable and often sizeable. However, they were sporadic and there was no way to predict when the next order would come our way. About three years ago, we began to think seriously about the possibility of obtaining distributors for our products overseas. Our products here in the United States are sold through distributors, and it is the distributor relationships which we have built up over the years which have helped our company grow and have enabled us to market our products throughout the United States. We began to look at the export market as a potentially lucrative extension of our domestic market, and we felt that the way to be successful in this marketing strategy would be to obtain distributors who were out there each and every day selling our products in their respective countries.

We read a notice of a trade show in England, which seemed to cater to our industry. Simultaneous to that, we found out that the Maryland Office of International Trade could be of assistance to would-be exporters with regard to general assistance as well as financial assistance. We decided to exhibit at this trade show, which took place in June of 1988 in England.

Manufacturers of Quality Products Since 1962

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We applied to the Maryland Office of International Trade for financial assistance, and through its trade fair assistance program, they agreed to pay half of the trade fair expense. Since the total sum of money to be expended, in order to attend this show, would approach \$10,000, the offer from the Maryland Office of International Trade was quite beneficial for us. About four or five months prior to the show, we utilized the Agent/Distributor Service of the U.S. Department of Commerce in order to attempt to locate companies in the U.K. which might be interested in distributing our products. The idea was that, if we could establish a communication with these companies prior to the show, we could meet with them at the exhibition where we would have samples of our products, etc. We received about 15 company names from the U.S. Department of Commerce, and I contacted all of them. None of these companies exhibited a major interest in our products, although a few did say they would attend the show and talk to me there. At the exhibition (June 1988), I did meet representatives of a few of these companies, but their interest was somewhat lukewarm. Some of them manufactured products similar to ours, so why would they be interested in importing our products and distributing them when in effect they would be competing with themselves? Others were just simply reluctant to import.

However, also exhibiting at the show was a company which manufactures lighting, including street lighting such as lampposts, bollards, etc. Their exhibition stand was only about 40 feet from ours, and we therefore began to discuss the relative market for "street furniture" products in the U.K. By coincidence, this company which is 65 years old and considerably larger than ours, had actually been looking for the type of products which we manufacture. They do not have any woodworking facilities, and therefore our products would mesh very closely with theirs and enable them to market a complete range of "street furniture" products. Within a few months, we had concluded an agreement with this company, and in our current fiscal year we anticipate that this U.K. distributor will account for about 6 percent of our total company sales volume.

In September of 1989, we exhibited at a similar trade show in Paris. There, again, we met a French company which was exhibiting close by. They are now distributing for us, and we have already shipped two container-loads of merchandise to them.

We are looking now into the Italian market, and we may very well exhibit at a trade show there in October of this year.

To summarize, exports are becoming a very important part of our business. In our current fiscal year, exports may very well account for 11 or 12 percent of our total company volume.

The coming of EC '92 offers American companies a significant opportunity. An integrated economic force will be created with a single market of 320 million consumers, a market larger than that of the United States. Europeans, in general, live well and their

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economies are strong. American-made products have a good reputation in Europe. There seems to be a significant opportunity for American manufacturing companies to find distribution in Europe now, because the coming of EC '92 will be beneficial to manufacturers whose products are already marketed in Europe. The 320 million people of the EC community will demand goods and services. Companies in a position to supply these goods and services will do well, whether those companies are European or American. As an example, EuroDisneyland, being built on the outskirts of Paris, is expected to accommodate more than 50 thousand people each day. That is at the amusement park itself. However, the infra-structure necessary to accommodate these people is enormous. Transit, hotels, and parks all have to be built in order to accommodate the influx of this huge number of people in a single day. The spillover into other areas of France and Europe, should also be significant. This is just an example of the opportunity that exists for companies which can supply the goods and services demanded by such a vast amalgamation of consumers.

EC '92 also represents a threat to the United States, from a trade point of view. After all, the U.S. does seem to have an unlimited capacity for consumption. As trade barriers go down in Europe, and more and more European companies streamline themselves to compete in the EC community, they certainly will be looking toward the U.S. as a market for their own products. Therefore, it is particularly important for U.S. companies to export to Europe, in order to avoid making our trade deficit any worse.

My experience with the Maryland Office of International Trade has been extremely positive. Exporting can be intimidating to many companies who have heretofore not attempted to market their products overseas. State agencies, such as the Maryland Office of International Trade, can help the businessman to understand that marketing products overseas may not be any more difficult than marketing domestically. After all, it sometimes takes quite a while to find the right distributor for a product in a given domestic area. A manufacturer in Chicago may wish to market his products in Florida, and finding the proper distributor in Florida could take that Chicago-based manufacturer quite a long time. Why is it any different in a foreign country? On the other hand, once having found a distributor for a product in another country, the marketing potential could be enormous. The rewards far outweigh the risks.

In conclusion, I would like to stress what I consider to be the need for the resurrection of this country's manufacturing base. In so many industries, we have abdicated the manufacture of very important consumer and industrial products to foreign manufacturers. In the long run, this cannot do our economy any good. There is a unique opportunity in the 1990's, because many of the low-cost producers of the world (such as Japan) are now finding that they are no longer low-cost producers. Their population is demanding more in the way of goods and services, and they want to improve their own standards of living. Thus, wages

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will just go up as well as inflation. That, coupled with the coming of EC '92, should enable American-based manufacturers to once again compete world-wide and once and for all stem the red ink of our balance of trade deficit. Hopefully, American consumers can be educated to recognize the need to support domestic American industry if the price is right and the quality is there. Similarly, our politicians will hopefully understand that free trade is free trade, but the concept has to be recognized by our trading partner or partners as well as by the United States. I understand and appreciate the interest of this Committee in the need for exporting, and I support wholeheartedly your endeavors. Thank you for inviting me here today and for the opportunity to present my views.



Stanley Skalka
President

Senator MIKULSKI. Thank you very much for your testimony. Here at this hearing, if you need a valve you have Mr. O'Hagan. If you need a little molecular biology you can have Dr. Grillo, to whom we are going to turn now.

In small business exports we have looked at products, concrete products like the valve sector that Mr. O'Hagan represents, something like playground equipment which one would not think of exporting like Mr. Skalka. But then there is this whole new frontier, really, of biomedical services, and we wanted to turn to a very small fledgling business person.

Dr. Sam Grillo has a company of 12 employees called BIOTRAX which exports medical diagnostic equipment to a Spanish company. We are going to want to hear his testimony.

I want to recognize in the audience, however, Dr. Papatheodorou, another Maryland resident, a very well-known physician who now is involved in economic entrepreneurial opportunity. I would like to acknowledge his presence here.

Doctor.

He is the one who really talked to me about EC '92 and is concerned that we are beginning to lose ground in areas like pharmaceuticals and other biomedical activity.

Dr. Grillo, you are a very small entrepreneur and actually in many ways a startup entrepreneur, so you have all the odds against you even in your own country of developing a business. So we are quite anxious to hear from someone like yourself.

**STATEMENT OF DR. SANTO L. GRILLO, PH.D., PRESIDENT AND
CEO, BIOTRAX INC., BALTIMORE, MD**

Dr. GRILLO. Thank you, Madam Chairman. It is a pleasure to be here and an honor, especially for a small fry and a small company like ours.

Senator MIKULSKI. This committee likes small fries, Dr. Grillo. [Laughter.]

Dr. GRILLO. When your assistant called me, I was not really sure what I could contribute to a Senate hearing on small business. I am certainly not a scholar on the subject. She expressed an interest in just hearing the story of how a company still functioning out of my kitchen could have actually arrived at an export arrangement with a very well established company in Barcelona, Spain, that is, Laboratorios Knickerbocker.

If I may take one moment I would like to introduce someone in the back of the room, Dr. Joseph Viñas, the president of Laboratorios Knickerbocker. He and I have been jointly attending, to learn about international trade regulations among other things, the International Biotechnology Conference currently in progress in Bethesda, MD.

What can I tell you about how BIOTRAX and Laboratorios Knickerbocker developed a relationship? It could have never happened if it were not for a tremendous amount of input and support from the State of Maryland.

As you are probably aware, Senator, but most of the people here may not be, Maryland fairly vigorously supports its Incubator Program for high technology companies, which it—Maryland—admin-

isters through the university system. I was familiar with this program and after we incorporated BIOTRAX in May 1988, the very first thing we did was apply for intramural participation in the program which we felt could do two things for us. One, it gave us a very badly needed physical plant, which costs a lot of money. Even before you can mix two chemicals together in a test tube in the molecular biology field, you have to spend about \$.25 million. That was a major obstacle for us.

Second, by passing the incubator program's rigorous review process and getting set up, we had some credibility. Hand-in-hand with that credibility, a number of Maryland State agencies, as soon as we came into existence and were accepted into the incubator system, made us aware of their existence and what they could do for us.

Out of the blue and without solicitation, I was contacted by the Maryland Office of International Trade. They said you are a new company; there are opportunities here that you should not miss; we would like for you to attend what was the first International Biotechnology Symposium; we will cover your registration fee if you will just bring your body there. I said OK, I'll do it.

On the second morning of the symposium, during his opening remarks, Dr. Michael Hooker, the president of University Maryland, Baltimore County, gave a fairly passionate speech in which he admonished the entrepreneurs in the audience, especially the small business executives, to pursue Europe aggressively as opportunities for what he termed win/win situations. He said do not go there just looking for something. Do not go there just looking to export your products. Go there looking for people who want something you can provide, and then they will help you with what you need.

Later that same day Dr. Viñas was giving a 10-minute presentation on Laboratorios Knickerbocker; he indicated that they were looking for some state-of-the-art DNA probe technology and reagents to complement their very fine immunodiagnostics. DNA probe technology has been my specialty. I guess you could say I have been a pioneer in that field since about 1983, and so I said, well, perhaps here is someone with whom BIOTRAX can do something. But how do I, operating out of my kitchen, approach a man who founded his own company 30 years ago and is very well established?

I went to talk to Ms. Katherine Lindquist of the Maryland Office of International Trade, who was at the meeting. She said by all means go talk to him, but first let me introduce your case. She talked to Dr. Viñas and said there is a company, BIOTRAX. They are new; however, they have been rigorously reviewed. We believe in them; they have the backing of the State of Maryland. Sam Grillo, the president of that company and the founder, is going to come over to talk to you, and maybe the two of you can start a dialogue.

I went to talk to Dr. Viñas. We struck up a dialogue and a pretty good friendship, I think, as it turned out. Later Laboratorios Knickerbocker invited me to Spain. I said, oh, my goodness, what do I do now because they want me to go there and make a deal.

That started a long, frustrating process. I did contact the Department of Commerce. Their intent was to be helpful. They did try to

be helpful. They sent me an enormous amount of information. In fact, I read just about every bit of it, and it did help me a lot; but it did not tell me anything about how to structure an opening proposal or how to think about it, whether to be aggressive or passive, whether to ask for a pie in the sky or just what I want. There was no help there. I tried service companies, and the whole situation with service companies was very uncomfortable.

I went to my lawyer, who has a lot of experience, and that was sort of a humorous situation. I arrived there. He said where is the deal? I said, well, I thought we were going to talk about how to put one together. He said why not go home for free this time.

I went back to the Maryland Office of International Trade. Mr. Diego Porteilles spent a good deal of time working with me. First he invited me into his office, and we talked for a tremendous amount of time until he actually started to learn and understand even molecular biology and DNA probe diagnostics. He cross-examined me extensively on all sorts of things that I did not appreciate at the time, and then he sent me away.

He did some of his own diligence work. He started to formulate his own plan of how he thought this could go. He said, OK why not come back now and we will talk about this. He said this is how I view it, do you think this is realistic? I said I think this is right, and this is wrong. There, we structured the whole deal. I do not want to take up time discussing all of these things, but there were many, many things. However, as soon as someone lays them on the table in front of you one time and you are aware of them, you say, of course, why did I not know. When, as an inexperienced entrepreneur, you have what turned out in our case to be about six deals rolled into two deals rolled into one deal, you just have no idea where to start.

Mr. Porteilles and I went through in a very long afternoon point-by-point working out a deal and why this word and why this sentence and why this positive and why do you want to put this (a) and (b), and why this number (1) after the (a) until I understood everything about why he had recommended these many things as part of the deal. In fact, I later changed it some, but after that briefing I was able to change it because I had an understanding. This is where I am trying to go, this is what I want to do, this is what I have to be afraid of, this is where I can take a little bit of liberty, and so forth.

When I got on the plane and went to Barcelona, I literally asked about 10 times more than what I was looking for, but that was just sort of an opener. From there we started a serious dialogue. By the time I left Barcelona that first week, because I went in knowing what I had to have because Dr. Viñas has a lot of experience, we had our deal. We felt that within 2 months perhaps or less we would have it finished.

Then came the rest of the educational experience, and that was not dealing with Laboratorios Knickerbocker. That was fairly simple, friendly and straightforward, but there was a tremendous amount of interference from the provincial government every step of the way. Once we could reconcile things with the provincial government, we then had to go to the Director General's Office. They would waive or approve this or that, they would want a transla-

tion, they would want a clarification, they would want information from the lawyer, back and forth, back and forth.

So then we thought we had a deal. Then the provincial government said, no, we want to have these aspects in it, we want more here. They were essentially controlling the deal and the negotiations, and we were double and triple negotiating everything.

Again, many times throughout this process, I called on the Maryland Office of International Trade; I called Diego, I called Kathy, I called other people. They would talk to me, they would talk to Spain, they would research things. They reassured us that it was not a problem with Laboratorios Knickerbocker. They reassured Laboratorios Knickerbocker it was not a problem with us.

Without a lot of that I think the deal might have died through no fault of our own, just through the experience. Finally at the end, as I described in my written testimony and I will not go through it all again, we were sitting there in Barcelona literally ready to sign the documents, and the provincial government official insisted on still more changes. At that moment, he demanded more changes and more additions which I could not agree to. I got back on the plane and came home without a contract.

There was more negotiation, some more verification of what was going on through the Maryland Office of International Trade, but finally after about another month or a month and a half we actually finished it, and we have now embarked on a pretty good working relationship.

If I may summarize how BIOTRAX arrived at this relationship, the Maryland Office of International Trade created a trade meeting, a forum for Maryland and European companies to meet and identify potential matches. We started there.

Second, something that was a major issue for us, something I would otherwise have been extremely uncomfortable about, is the Maryland Office of International Trade established credibility for BIOTRAX. In other words, I felt confident that I could approach Dr. Viñas, and Dr. Viñas knew that even though we were a small company we had some credibility.

Next, we simply do not have resources for investigative diligence. Maryland Office of International Trade did a lot of that for us. It produced a lot of information for us; therefore, we were confident that, especially with a very small operation and a very limited amount of manpower, if we made a substantial commitment of time and energy. Something productive would probably come of it.

As I said, the assistance in devising negotiating strategy was invaluable. It was unimaginable how—I would have done something, but I do not know what without that help. Throughout all of the many problems we had that were external to Laboratorios Kickerbocker and BIOTRAX which were very difficult, and despite the fact that I had by the end stages of this very experienced advisors working with me, it was a very difficult situation. We needed the assistance of a support group that had resources that could do investigations for us.

In short, I do not know if something like the Maryland Office of International Trade is the answer for every State. I do not know enough about all these things to say whether this should be a Federal mechanism. It seems to me that each State should identify

what is strong, at least, and try to support it. Maryland supports biotechnology. They have targeted our industry because we have the Johns Hopkins and Maryland Universities and all of the laboratories in the Baltimore-Washington corridor, and we are getting the biotechnology industry up and out of Maryland and into the international arena.

Senator MIKULSKI. That, then, takes me to my questions. Actually, I think your points were very well taken. Obviously, your experimentation did not end in the biological laboratory. It has been out in the international trade community. We thank you for that.

How did the State of Maryland's Office of International Trade find you, or did you find them?

Dr. GRILLO. They found me. When I became affiliated with the incubator facility, the various agencies were made aware of our—

Senator MIKULSKI. What is the incubator facility?

Dr. GRILLO. The State of Maryland subsidizes what are called high technology incubators. One is the Technology Advancement Program (TAP), in College Park. Another is the Technology Enterprise Center (TEC), with which my company is associated, and which is affiliated with the University of Maryland, Baltimore County Campus.

In that particular situation we have 3,000 square feet for which we pay—it is very cheap. We could not afford to have a facility without. It provides a lot of support services. The support services include networking us through agencies like the Maryland Office of International Trade.

Senator MIKULSKI. So the Maryland Office of International Trade, because you were in a program to incubate small business, found you through the incubators, which I think is a very interesting way to reach high technology or small fledgling firms because you would not have known about them. You were busy trying to get yourself started. That is why you are in an incubator. Somebody needed to find you. That was No. 1. Is that right?

Dr. GRILLO. Correct.

Senator MIKULSKI. You did not know about any of the things related to the Federal Government; and even if you did, being a young guy starting out the way you were, would you have thought that you could be an international trader?

Dr. GRILLO. Absolutely not.

Senator MIKULSKI. Exporter?

Dr. GRILLO. Not at this stage. The expectation to do that was there. However, the belief that we would be in this situation at this point in time was laughable to us, frankly. We could not picture how we could do such a thing. It turns out if you can traverse what are actually not such big obstacles and you get people sitting down talking to people—and I think someone here already mentioned that—it is just like making any other kind of deal. It is not very extraordinary at all.

Senator MIKULSKI. Thank you very much, because what we are really looking at is that there needs to be an array of services to small business people.

[The prepared statement of Dr. Grillo follows:]



SPECIALIZING IN
APPLIED RECOMBINANT DNA TECHNOLOGY

WRITTEN TESTIMONY OF SANTO L. GRILLO, PH.D.,
PRESIDENT AND CEO OF BIOTRAX INC., BALTIMORE, MARYLAND,
FOR A SENATE SMALL BUSINESS COMMITTEE'S EXPORT EXPANSION
SUBCOMMITTEE HEARING: EFFECTS OF THE 1992 EC INTEGRATION
ON SMALL BUSINESSES IN THE UNITED STATES; MARCH 28, 1990.

My name is Santo L. Grillo and I am the President and Chief Executive Officer of BIOTRAX Inc., whose principal place of business is 5202 Westland Boulevard, Baltimore, Maryland, 21227. I was born in Syracuse, New York, and I am a United States citizen currently residing at 2615 North Rolling Road, Baltimore, Maryland, 21207.

My background and training includes a Ph.D. in biology (Syracuse University) and seven years (1980 - 1986) of post doctoral training and basic research experience (The Johns Hopkins University and The Johns Hopkins Medical Institutions, Baltimore, Maryland). In addition, for thirteen years (1966 - 1979) I doubled as a science student and as an employee, key player or cofounder of start-up companies in the light construction industry in Syracuse, New York. From August, 1986 to April, 1988, I worked as the senior scientist and then consultant for a start-up biotechnology company. Finally, in May, 1988, Ralph S. Abramson, Joel Gordon and I founded BIOTRAX Inc. for the purpose of developing recombinant DNA technology based products.

BIOTRAX is currently specializing in the development of DNA probe and other molecular pathology products for diagnostic/prognostic applications in human and veterinary medicine, as well as recombinant DNA biologics products beginning with manufacture of biosynthetic fish growth hormone for application in commercial aquaculture: the first "BIOHYBE" viral detection kits will be distributed locally for research and evaluation purposes in the next weeks, and, through a strategic ally, in Spain and perhaps elsewhere in Europe by the end of the year; biosynthetic fish growth hormone has been produced at bench scale, resulting in potentially significant commercial interest in the Pacific rim region.

Thus, it is not unrealistic to suggest that by the end of 1990 BIOTRAX will have expanded from one full-time, non-salaried employee -- me -- working out of the kitchen of our modest two family home, to a global operation exporting technology and products to Europe and the Pacific rim. These achievements would have been totally impossible if Maryland did not subsidize high technology incubators through its university system, and if the Maryland Office of International Trade had not sought out BIOTRAX as a company in need of assistance and encouragement late in the summer of 1988. A chronological summary:

We successfully completed a rigorous review process and were accepted for intramural participation in the Maryland high technology incubator program during the summer of 1988 (BIOTRAX

currently occupies 3000 square feet in the University of Maryland Baltimore County facility known as TEC; this space is utilized predominantly as product development facilities and includes substantial capital equipment obtained from Maryland's surplus inventory for the price of transportation and reconditioning.). Various Maryland agencies and support groups therefore became aware of our existence and impressed us with the enthusiasm and aggressiveness with which they sought us out so that we could know of their existence and what assistance they might offer. So it happened that the Maryland Office of International Trade contacted me through the incubator system to inform me that they were sponsoring an international biotechnology [industry] symposium in Baltimore late in September, 1988, and that they would subsidize my registration fee as a representative of a then seed stage Maryland biotechnology company. I attended and came in contact with Dr. Josep Vinas, founder and President of LABORATORIOS KNICKERBOCKER, a thirty year old company based in Barcelona, Spain (Catalunya Province) and recently described in the trade journal Genetic Engineering News (September, 1989 issue) as "Spain's preeminent immunodiagnostics company". I also had the opportunity to make contact with a person who was quietly searching for a company interested in R & D ventures with a Japanese concern, and BIOTRAX ultimately obtained an R & D contract. In December of 1989, BIOTRAX and L. KNICKERBOCKER completed grueling negotiations and signed documents describing two complex deals which together constitute a "win-win" scenario in the form of a strategic alliance. The Office of International Trade was intimately involved throughout the course of these negotiations and Ms. Katherine Lindquist and Mr. Diego Fortieles in particular played key roles.

A review of the L. KNICKERBOCKER case, as seen through the eyes of an entrepreneur who was totally lacking in international trade experience, will hopefully be enlightening.

I initially attended the biotechnology symposium because it was free, exciting, and, most of all, I thought it would be educational. However, on the second day of the conference I listened intently to Dr. Michael Hooker's passionate opening remarks suggesting that ample European opportunities existed for small biotechnology companies, provided the executives of such companies aggressively pursued these opportunities with the goal of establishing "win-win" strategic alliances. From my days in the construction industry I knew this meant that if you can give the other guy something he really wants or needs, you can probably horse trade for something you want or need in return. Therefore I set out to identify one or more established but not too large 1992 EC companies which were seeking state-of-the-art recombinant DNA probe technology and/or products -- my specialty.

Later in the same day I again found myself listening intently as Dr. Vinas, during a ten minute talk about L. KNICKERBOCKER, indicated that his company was seeking DNA probe tests and/or technology to

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compliment their immunodiagnostic offerings, a move they felt was of critical importance if they were to be competitive in the 1992 EC, as well as an American outlet for their immunodiagnostic products. He continued that his company employed 102 people and enjoyed a significant cash flow and modest but substantive reserve cash resources. I immediately concluded that I had identified someone I could do business with, but had no idea what to do next. I therefore sought out Ms. Lindquist and inquired whether it was realistic for me to pursue this and, if so, how should I go about it.

Ms. Lindquist encouraged me to initiate a dialogue, but she first informed Dr. Vinas about BIOTRAX, that the company had been favorably reviewed and admitted to the incubator program, and that it had the backing of the State of Maryland as a start-up but legitimate biotechnology company (despite the fact that I was still working out of the kitchen in my home). With my legitimacy thus established I spent several long minutes summoning my courage and then introduced myself to Dr. Vinas. We quickly discovered that we indeed had a match in terms of needs and assets, and during the next two days we met three times for continued exploratory talks and ultimately to outline a deal. A short time later I was invited to Barcelona to inspect L. KNICKERBOCKER facilities and begin serious negotiations.

Upon receipt of the invitation we began diligence research on L. KNICKERBOCKER. I again contacted Ms. Lindquist for assistance: using the resources of the Office of International Trade she was able to confirm most of the information related to me by Dr. Vinas, as well as additional detailed information concerning the company's organization, finances, etc. Assured that it was not a waste of time -- or at least that there was good potential for a deal -- I arranged for a meeting in Barcelona during February, 1989. However, I once again found myself in a "What do I do now?" situation and became progressively more frustrated in my attempts to discern a negotiating strategy.

The Spain desk of the Commerce Department provided substantial informative literature concerning pertinent regulations, Spanish customs and cultural considerations, but no real help with my problem. A variety of service companies were anxious and willing to help; of course they asked a stiff fee up front and/or a guaranteed minimum fee, as well as a generous fee equivalent to a proportion (e.g., 8.0%) of any final deal. BIOTRAX's corporate lawyer let me off with a free visit because he thought I was bringing him an already outlined deal. So, I once again turned to the Maryland Office of International Trade and Mr. Diego Portieles, Marketing Director, came to my rescue.

Mr. Portieles spent substantial time in question and answer conversations with me until he was satisfied he had an adequate understanding of all aspects of the negotiations. He followed up with his own diligence research and then met with me for an afternoon to outline and extensively discuss, point by point, suggestions for an opening negotiating position. I subsequently developed a strategy and, consequently, I boarded the flight to Barcelona remarkably relaxed and confident that matters were adequately under control.

After five days of meetings in Barcelona, Dr. Vinas, his staff and I found ourselves in agreement on most points, we had completed extensive discussions on the manner and timeframe of collaboration between the two companies, we had agreed on a six figure cash infusion from L. KNICKERBOCKER to BIOTRAX, and we were optimistic that we could complete the negotiation process and have contracts drafted by the end of April, 1989. We did not anticipate the blatant interference of both the Catalunyan Provincial Government and the Directorate General's Office in Madrid; essentially every item was negotiated first with L. KNICKERBOCKER, and then with the provincial government, and finally required approval -- including explanations requested seemingly at various officials' whim and leisure -- from the DG's office. The Office of International Trade and its investigative resources were called on frequently to help and provide reassurance to both companies as we tried to traverse this morass.

Two examples should reveal the magnitude of Spanish governmental obstacles with which we were confronted. On November 6, 1989, Dr. Vinas and I sat side by side at the Offices of the Catalunyan Provincial Government with Mont Blanc pens at the ready for affixing signatures to the contracts, thus formalizing our strategic alliance. At that moment, however, an official of the provincial government insisted, based on the power of being able to block the transfer of funds, on the inclusion of additional provisions in the documents. I could not agree to his demands and so returned to Baltimore empty handed. The issue was reconciled at the expense of two solid weeks of fax negotiations and considerable additional legal fees. The entire matter had to then be resubmitted to the DG's office for approval. The approval came just in time for us to finally consummate the deals on December 29, 1989, which coincidentally was the same day the Spanish government passed a law levying a 25% tax on funds exported for off-shore services: as a component of the cash infusion L. KNICKERBOCKER has or will pay to BIOTRAX, between February and September, 1990, a total of \$150K for technology training services, of which BIOTRAX has or will surrender to the DG's office \$37.5K in Spanish taxes.

In summary, it is totally unrealistic to believe that BIOTRAX would have a valuable strategic ally in EC 1992 were it not for the sustained assistance and encouragement of the staff of the Maryland Office of International Trade. Their contributions included:

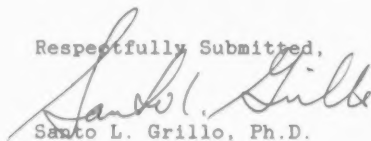
1. A forum for Maryland and European companies to meet and identify potential matches;
2. Credibility, a difficult issue for start-up and small businesses, upon which a dialogue was initiated;
3. Investigative diligence far beyond the resources of small companies, and resulting assurance that the time and effort required for the negotiating process was justified;

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4. Invaluable assistance devising a negotiating strategy and opening proposals;
5. Substantial peripheral assistance, advice and counsel throughout the negotiations.

Ms. Lindquist has recently represented BIOTRAX to, and arranged for the opening of preliminary talks with, The Economic Development Council of Singapore regarding a joint venture to export BIOTRAX's biosynthetic fish growth hormone and related aquaculture products to the Pacific rim region.

Respectfully Submitted,



Santo L. Grillo, Ph.D.

Senate MIKULSKI. Mr. Ludolph, coming to the Administration, first I would like to make a comment about the very excellent literature that you have. First of all, it is in plain English, in straightforward business English. I think a business person could read that and get a sense of what it is he needs to know.

Also, there is this book. For the record, what I just held up was "EC '92 Export Opportunities in Europe".

Also, I have here a book called, "The World is Your Market, an Export Guide for Small Business", and I believe this was done with AT&T and small business.

Am I correct it was a joint effort, and this is distributed freely, I believe, to people who are interested?

Mr. LUDOLPH. Yes, that is right.

Senator MIKULSKI. Mr. Ludolph, when you say that there is a one-stop shop for small business interested in exporting to Europe, could you describe to us what and where is the one-stop shop for small business? In other words, where is that phone number; and when you call, what do you get at the end of the line?

Mr. LUDOLPH. What we found was that all of the expertise for this rapidly changing environment in Europe was not in our field offices 2 years ago because of the quickness with which the Europeans developed this program. The expertise could be developed centrally, and we began a program putting together 20 or 30 people in the Department of Commerce building headquarters at one phone number (202) 377-5276. That phone number gets two very important programs initiated.

Any exporter, any businessman, any person who has an interest in EC '92 from any aspect can dial that number and be put in touch with two types of experts. One is an expert very much like the successful programs we have heard from the State of Maryland for developing trade. It is a different skill than identifying a particular market barrier and fixing that market barrier.

So half those people are dedicated to taking over a company's market opportunity desires and developing a program of trade missions, trade fairs, catalog shows, agent distributor programs if they are not in the Washington area, as well as contacting the State and local programs as well as the district office programs in the State or region where they are to develop a tailored program for these exporters.

Since we began that program, 4,000 programs have contacted this number specifically to get more marketing assistance in getting into the European—

Senator MIKULSKI. How would you even know that number?

Mr. LUDOLPH. How do I know the number?

Senator MIKULSKI. No, I know how you know the number.

Mr. LUDOLPH. Oh, we promote it. Essentially, we sent out in August 1988, 100,000 flyers to the first 100,000 addresses in the Dun & Bradstreet small business list telling them that there was an address and a telephone number if they wanted any kind of assistance on EC '92.

The initial response was twofold. One, about 4,000 companies out of 17,000 who responded actually became part of what we call the Europe Now Program. At that time in 1988 we were still in the throes of the Export Now Program. We invented the Europe Now

Program as a counter for Europe '92. Those 4,000 companies became charter members of that.

It is also true that about 15,000 companies did not want marketing assistance. They felt they already had distributors. They felt they already knew how to sell to the old Europe. What they wanted to know was how the new Europe was going to change the way they did business, and all they wanted was more print information, somebody to tell them whether their standard was going to change, someone to tell them whether a business regulation on labeling or something was going to change.

For that, we developed the other part of our service, which was information on legal, regulatory, and commercial changes, new distributors and new standards. Some of the kinds of volumes that we produced were analysis of the legal regulations themselves, something that small businesses do not have the time or the money to do. I am holding up one of the volumes which was published in November.

There were two types of services businesses needed. One was the information to cope with the market even as they were there, and the other was the marketing help, as we have heard today, to get into the market even particularly if they knew the market.

Senator MIKULSKI. How do the States get into the process? You heard about how Mr. Grillo talked about that.

Mr. LUDOLPH. It sounds like a very good program. We have developed 16 cooperative agreements with the National Association of State Development Agencies and—

Senator MIKULSKI. Do you help to pay for programs like that or contribute?

Mr. LUDOLPH. No. As I understand the budget situation and our programs, the Department of Commerce does not help, but the Small Business Administration does. So the larger answer is the Administration through the Small Business Administration and grants to small business development offices as well as through the USDA grants program for development of agricultural exports do support in various States development of small business opportunities in export. Commerce itself spends all of its resources to develop programs through its district offices and its Foreign Commercial Service Offices.

Senator MIKULSKI. I see. Well, we will come back to that.

I want to turn to Mr. O'Hagan and Mr. Skalka in terms of small business and their participation. I will ask, and then both of you can take your turn in answering.

First of all, did you know that phone number?

That is not to get you, but, you know, part of my concern is that we have this tremendous amount of information, and how can we disseminate it in our society in a way that is efficient and effective.

Mr. LUDOLPH. I appreciate it, Senator. I am learning myself as we go through this hearing.

Senator MIKULSKI. Essentially, how did you two learn what to do, for example, when you talk about the trade associations or that we have this antitrust waiver? How did you know about it? How did you know what to do? How did you really get into being an exporter?

Mr. Skalka, how about taking a crack at it first. How did you even get yourself to be a trade show guy?

Mr. SKALKA. The Department of Commerce produces a very good magazine called "Business America" which we get every month, and it has to do with sales overseas, trade shows overseas, and business opportunities overseas.

Senator MIKULSKI. So you subscribe to that magazine?

Mr. SKALKA. Yes. The EC situation has been all over that magazine for a long time, and reading it will give you a very good insight into the nuts and bolts, so to speak.

Senator MIKULSKI. So you, through this magazine which I am holding up, "Business America", learned about the trade shows.

Then what was your next step? Did you hear about that phone number, the one-stop shop?

Mr. SKALKA. I do not recall. I did not memorize it, but I know there is a place to go.

Senator MIKULSKI. That is OK. [Laughter.]

Mr. SKALKA. We have been in business for 29 years, and I believe strongly in trade shows. Domestically, and as we have proven internationally, it is very important to be there and to know who your competition is.

Senator MIKULSKI. How did you get there? In other words, you read about it, but then what were the next steps? Did you get any help in paying your way?

Mr. SKALKA. Yes. Similar to this story, the Maryland Office of International Trade is a very, very significant organization. It not only found information for me about the trade show, it also has a Trade Fair Assistance Program such that if you apply to the Maryland Office of International Trade and you say you want to attend the trade show and you fill out the necessary papers so they know what it is and you are a Maryland-based manufacturer, they will pay up to half the cost of the exhibition. They do not pay for the cost of travel or hotels but just the cost of exhibition, the booth space, shipping the samples over there, the cost of a translator, and so forth.

Senator MIKULSKI. They did all that for you?

Mr. SKALKA. Yes. I might say that many, many years ago at a trade show in Texas, I remember seeing a pavilion of Canadian companies, and all those Canadian companies at the show were subsidized by the Canadian Government. This is true in many American trade shows. You will see foreign pavilions.

The U.S. Department of Commerce, to my knowledge, does not subsidize companies to attend trade shows, but the individual State organizations, of which Maryland is one and there are others, do this. I think this is really critical because you really cannot get too far unless you are there. That is just my opinion, and it has worked for us.

Senator MIKULSKI. So you found out about the trade show through a Department of Commerce publication?

Mr. SKALKA. Yes.

Senator MIKULSKI. But essentially, helping to get you there was done by the Maryland Office of International Trade?

Mr. SKALKA. That is correct.

Senator MIKULSKI. Mr. O'Hagan, what about you in this line of questioning? What would your comments be?

Mr. O'HAGAN. Well, my first comment would be that I wish all of our members had their manufacturing plants in Maryland.

One of our responsibilities as a trade association is to give our members advice as to what services are available from the Government. I have a high regard for the Department of Commerce myself. I served on the Export Now Advisory Committee, and I am fairly close to what is going on there. We have had Mr. Ludolph at one of our meetings advising our members on EC '92.

So we keep in touch with the Commerce services. We have used them particularly in the trade missions overseas and found them to be extraordinarily helpful, and we try to keep our members advised on what services are available from the Department of Commerce and other agencies.

I guess if I had any frustration with the companies, it would be that they do not really take advantage of all the services that are available. You really have to keep reminding them that these services are available and to please take advantage of them because they are very effective and very helpful.

Senator MIKULSKI. As a trade association, you then function as a link, culling information from Commerce and the 20 agencies that would be involved in EC '92 to see what you can get out to your members; is that correct?

Mr. O'HAGAN. Yes. There is a lot of information, and we try to tailor it to our members.

Senator MIKULSKI. That is what I mean. So what you are doing is essentially taking Commerce information, and I use the term "value add" to target your specific niche in the market?

Mr. O'HAGAN. Exactly, yes.

Senator MIKULSKI. You, therefore, essentially function as a mini department of trade for your trade association?

Mr. O'HAGAN. That is right.

Senator MIKULSKI. Why do you think the interest is so minimal? We always used to pride ourselves on being Yankee peddlers around the world. Why do you think your members seem to have such a low interest? Is it suspicion, a feeling of being overwhelmed or feeling like Mr. Grillo did?

This is a very entrepreneurial young man, as you can hear by listening to him. He thought, I will be an exporter down the line.

Mr. O'HAGAN. Let me clarify. Our members do not seem to have a great interest in using Government services that are available, and I feel that they are making a mistake by doing that. They do have an interest in international trade, very much so, and we have seen an increased interest in the last couple of years. I think about 30 to 40 percent of our members actually have foreign manufacturing plants. A number of them have joint venture agreements overseas.

So, by-and-large, our industry is extremely international. Many of our members, I believe, actually generate more of their revenues outside the United States than here in the United States. So we have a very keen interest, particularly in the European Community.

If I might make one point, I think you really have to look at the European Community in the larger context of Europe because I think what is happening there is going to have a spillover effect into Eastern Europe, the Soviet Union, and ultimately here in this country. I think even for companies that are not export oriented, one implication of EC '92 is you are going to see much stronger competitors emerge in Europe, and they are going to be knocking on our door here. So we are going to be facing much stiffer competition in the United States as well as around the world as a consequence of EC '92.

Senator MIKULSKI. I see.

One of the things I just want to mention for the record, one might say we are holding a small business hearing, so where is the SBA? We did invite SBA, the Director of Region 8. He has really been quite innovative. He was called to a trade show at the last minute and given kind of a must-appear thing. We just found this out, so that is why SBA is not here.

So Mr. Ludolph, to the extent possible, if you can do some double duty we would appreciate it. We want the record to show that SBA certainly was not only not excluded but we were eagerly looking forward to its insights, and we will be looking to get his testimony from the Agency.

I am going to go on to two things related to pitfalls, barriers, and strategy. Also, although we are talking about EC '92, if anyone needs to comment on other areas of trade around the world, particularly on self-imposed barriers, please feel free.

The United States right now as it looks out into the world and wants to export, is always very critical of other countries imposing barriers on us. I will be interested in knowing what you think about EC there but also from both Mr. Ludolph and down the panel I would like to know what barriers we sometimes impose upon ourselves. Do we have enough Customs agents? Is the old Commerce list on what you can export out of date?

So let me just throw it open. We heard about some of the barriers from Dr. Grillo. Every time he turned around they were trying to regulate him, cell by cell, as he sold his biotech stuff or molecule by molecule.

Did you feel that way, Dr. Grillo?

Dr. GRILLO. Yes.

Senator MIKULSKI. They were going to tax it at every molecule.

So just kicking off, Mr. Ludolph, we would like to just get a sense from you. We know some of the good news, like with EC, the harmonizing of product standards. It means a company like Black and Decker that sells hand tools will essentially be one plug—metric, but one plug rather than a plug for Luxembourg and one for East Germany.

So what EC regulations or policy might hurt small business and also what you think even within our own array of trade policies in hindering U.S. exports?

Mr. LUDOLPH. I think Mr. O'Hagan summarized some of the concerns that he sees in his membership in the European Community. The two that stand out that will be with us for the next 2 or 3 years are the unraveling of the very difficult situation regarding the European Community's use of standards testing and certifica-

tion. It costs \$1,000 or more, sometimes hundreds of thousands of dollars, to get a product accepted into any marketplace. In the United States, for a regulated product with the FDA or a regulated product with the FCC, you have to engage in tests and certifications to prove safety and health and their operability.

The European Community is imposing a new system, European-wide system of tests and certification. That system means that U.S. business, European business will be able to get one test for the entire market. That is good. But if that test can only be attained by one lab from one lab in the European Community, that means that all of us have to pack up all of our designs and specifications and trade secrets and know-how and send it off to someone.

We do not know how they will protect it, they will look at it for 2 or 3 years, potentially reverse design it, reverse engineer it at an extraordinary cost, a very risky proposition, something handled much better back here in the United States by U.S. test facilities, by U.S. companies who can test their own equipment and specify whether these products are safe and meritorious.

This is not just a discriminatory problem but because of the distance and the smallness of U.S. business, it is a major hurdle from the standpoint of access to the European Community market. It extends into biotech, it extends into valves, and it extends into any product that has some safety, health or environmental aspect to it.

It is going to be a major issue for access for the U.S. exporters, large and small, and we need to get very seriously started on this. In that regard, there needs to be a great deal of attention paid in our own standards community to this issue. There is no organized ability to handle U.S. testing and certification in the United States. There is no Federal function, there is no State function, there is no uniformity among States and localities in this regard, and there is no private sector organization dedicated to this, either.

This is a serious gap in our competitiveness in world markets, and it will prove to be in the 1990s.

Another area that I think we need to look at is local content, and let me just add a parentheses to this standards issue by saying that by-and-large the U.S. market and the U.S. regulatory conditions are very open. Rulemaking in the FDA and rulemaking in OSHA are very open. Foreigners have good access to this process. We cannot say the same thing about the European Community, so this is another aspect of the sort of unlevel aspect of international testing where we are open and they are closed or more difficult.

In local content, in my earlier remarks I summarized some of the sectors that we need to pay attention to. If you look at those sectors, you will see that these are the lists of targeted high technology sectors that are important to U.S. trade, European trade, and Japanese trade around the world, semiconductors, electronic components, biotechnological products, and pharmaceuticals all have been adopted by all governments in the world as being something to look at for the future of jobs, the future of production, and the future of exports. The European Community has imposed—introduced proposals for rules that would require a significant amount of local content in these aspects.

There are no easy disciplines over any of these proposals. The Uruguay Round will cope with some of them, but it is true that

even if we are successful in the Uruguay Round there are still plenty of areas in rules of origin, for example, where mischief can be played, and we need to look very carefully at the agenda for the 1990s in areas that were never planned to be disciplined by the Uruguay Round or by existing bilateral agreements.

Those, I think, are really the two areas at which business has to look, at which the Government has to look, and which have a major effect on small businesses coming out of EC '92. There are other areas, but those are the main ones.

Here in the United States, the main problem, I think, from talking to a lot of businessmen in the last 2 years about the potential for 1992—

Senator MIKULSKI. Business people.

Mr. LUDOLPH. Business persons.

The main problem is lack of resources to develop the markets. You are looking at businesses that have spent just about every dollar they have to develop a product for a niche somewhere in the United States. They are fighting to hold onto their market share in the United States as the global market internationalizes and Europeans and Japanese come here. You are looking at demands in the global marketplace for new products, for new types of processing, for opening up new technologies. All of these require major capital undertakings, and there are not enough resources available.

This opens several questions for U.S. competitiveness in the 1990s or U.S. exporting or doing business, and that, first of all, comes to the issue of cost of capital. It is very important across the board to have an economy that supports a cost of capital in the United States that is equal to but certainly no more than the cost of capital in Germany, in the European Community, in Japan or even in the four tigers in the Pacific Rim. They have a significantly lower cost of capital. It is much more difficult for us to take new capital projects on and develop new markets if we cannot afford to compete based on the cost of money.

Research is a very important aspect of the entire program. Antitrust is the main problem with research. You cannot develop a research project that develops twinning. Much technology and research these days require a broad range of technological innovations. It is very difficult for a small business to get participation in that unless they can somehow join together.

That brings us to the issue of antitrust and the ability to compete against foreigners who do not have this restriction.

These are some of the areas that I think are very important for the United States to pay attention to.

Senator MIKULSKI. Excellent. That is very practical when you talk about that as well as the metric issue.

Mr. O'Hagan, in your testimony you outlined some of the pitfalls. Is there anything that you wanted to add to that or amplify, and then also anything where you might see, again, self-imposed barriers like antitrust legislation or some of your products maybe being on a list somewhere that they say is a threat to national security even though you can buy it in Hechingers?

Mr. O'HAGAN. I think, Senator, that Mr. Ludolph really hit on the main ones. From our members' standpoint, I think the standards issue is by far the most significant one, and I think we feel

that probably the German standard for valves will ultimately predominate in Europe. Some of our members, if they are shipping there now, have to comply with that standard.

In the testimony I think I hit on the main barriers and obstacles. What I would say, however, is that I view EC '92 as a tremendous opportunity, particularly for small businesses because small businesses are much more innovative. They work much more at a person-to-person level. We have plenty of examples in our membership of our smaller companies who have done extremely well in Europe. One of our members at the end of this month is shipping a \$1 million valve to the North Sea and competing with very large companies. That company was innovative. They were quick, they were responsive, they were able to go over there and get the order.

I think EC '92 is stimulating all sorts of business opportunities, and I think small businesses have probably a better shot at a lot of that business than the big cumbersome corporations that seem to get hung up in major policy issues and tend to be looking at huge capital investments which often become frightening or from which they want to back away.

So the obstacles exist, as Mr. Ludolph and I have outlined in our testimony; but really, I think the opportunities are great. I think if we had other States doing what Maryland is doing for small businesses, we would be in very good shape. I really was not fully aware of the extent to which they were helping, and I think that both these gentlemen here are a wonderful example of what can be done.

Senator MIKULSKI. Of course, if any of your companies want to locate to the Eastern Shore or Western Maryland, I would like to quote Mr. Skalka. We are only 40 feet away from you at this trade show. Thank you.

Mr. Skalka—is it Skalka?

Mr. SKALKA. I will take it any way, but it is Skalka.

Senator MIKULSKI. How does your father pronounce it?

Mr. SKALKA. Skalka.

I feel that no matter what the EC brings, there is no substitute for a businessman pursuing export sales the way he would domestic sales. When I was in the United Kingdom and France and at the Maryland Office of International Trade in Brussels and I talked to the people from Maryland and also the foreign trade officer in the Embassy, there is a recurrent theme. A lot of American businessmen come through, stop at the Embassy, give them a business card and a brochure and say I want to export, and that is the sum total of their interest; or they write a lot of letters, they make phone calls.

But an American businessman here would go to great lengths to find the right distributor in another geographical area, the same thing has to be done overseas. As a matter of fact, oftentimes American goods, particularly in Europe are looked at very positively. It is a mark of quality to say made in the U.S.A., and as much as we have been led to believe that, for example, Japanese products have a higher level of quality here, the perception may be right or wrong, but the fact is in Europe, American-made products denote quality.

So I would say that regardless of EC and regardless of the standards issues and all the rest, there is no substitute for each individual businessman pursuing it as if he were trying to go to the Midwest from here.

Senator MIKULSKI. Do you think that information on how to go about exporting needs to be more widely available—where to find an incubator, and so on, the kind of thing where you essentially have a workshop for anybody who is interested that says exactly how to start and what steps to take?

As I said, there is now good, solid information in booklets for you to read, and so on.

Mr. SKALKA. As a matter of fact, the Department of Commerce does that. They actually do create workshops regionally. They do it in the different counties in Maryland, the Department of Commerce along with the Maryland Office of International Trade, and they bring people who have a story to tell to try to interest other people in export.

Senator MIKULSKI. Do you feel that is effective? Have you gone to any of them?

Mr. SKALKA. I did. I went to one of them where they asked me to recount the episodes as I just recounted. I actually got a call from two people who were there who are manufacturers in Maryland who wanted to follow up and wanted to know if I could help them or give them some advice. Of course, I was happy to, although my experience is limited. We are a small company.

I think it is the first step that counts. Once you make the first step and actually find out that it can be done and you can get help, people can become very interested.

Senator MIKULSKI. Do you think one of the problems is a lot of the small business people are caught up in survival, whether it is capital or our markets; and that second, because they are small fry, they do not think that they can swim in international trade?

Mr. SKALKA. I think that for a lot of American manufacturers, the market domestically is so vast, and has been for so long, that they do not even think of exporting. In Europe a Dutch company or a Belgian company would not think of producing a piece of goods without the instructions in four languages. That is a way of life over there. Over here, most American manufacturers, if they think of expanding their markets it is to go to the next region in the United States as opposed to overseas.

That is just my opinion.

Senator MIKULSKI. Dr. Grillo, I know that you outlined in detail that after all the help that the Maryland Office of International Trade gave you, when you got to Spain the provincial government really just strung out the process, and had you not had patience, counseling, and help, it would have been very hard for you to sustain that.

Dr. GRILLO. Correct.

Senator MIKULSKI. So that is one thing.

When we talk about EC barriers, even though you could have the common currency and the same plug, and so on, do you feel that this was one of the problems that had you not had the backup of the Maryland program you would have essentially said the heck with it? It would have just worn you out?

Dr. GRILLO. It might have worn us out. Dr. Viñas and I are both fairly stubborn, and we were determined that we were going to get there, but you arrive at a point where your confidence really begins to be drained. You do not know, and there are all of these problems, and you are communicating by Fax, back and forth, across the ocean, and you are saying, "well, you know?"

After a while, we had several different sources, the Directorate General's Office, the provincial government, the lawyers, Laboratorios Knickerbocker itself, and you start to wonder what is going on here. You are getting all these conflicting signals, and they say they want this revised so you work on it real hard, you revise it and send it in by Fax, and you get back something else that says they want a different revision which has nothing to do with what you were just working on.

In our case, sometimes the Office of International Trade were just there to call and vent frustration at, and that was important just in itself. Sometimes they said, OK, but I think they were just trying to humor us. They said we will get on the phone and call and check. They did that. They called back, and you regained your composure and you start to put one foot in front of another again, and you get it done. That was a big help.

Senator, may I add one thing?

Senator MIKULSKI. If you could just wait a minute, Doctor. [Pause.]

Senator MIKULSKI. OK, go ahead.

Dr. GRILLO. One more thing about the support that Maryland provides in terms of trade shows. Very small companies, especially like BIOTRAX very early on when we were starting out to do things, there just were not enough people or money to send bodies to Brussels. So Maryland rented a booth and made that booth available to four or five small companies. People from the small companies could go there and use the booth for free, or if you did not have the time or money, Maryland OIT staff got as programmed as possible, and they actually went there and represented us and brought back contracts.

Senator MIKULSKI. That was a big help?

Dr. GRILLO. It has been a help for something else besides our diagnostics. We may now export another major commodity to Europe thanks to that kind of a connection.

Senator MIKULSKI. Doctor, we thank you. I really mean that. I have about 12 minutes to get over to the floor to cast my vote, another one of 250 amendments to the Clean Air Act.

I want to thank the panel for its participation today. I know it had a Maryland tilt not only because I am from Maryland but because it did show the involvement of the State that constitutes a multiplier for what the Department of Commerce does. Maryland is not a substitute for the Federal effort, and we would hope that all State programs would be an amplification of that effort.

We want to thank you, Mr. Ludolph, and the agencies of the task force.

We are going to hold a whole series of other hearings on small business trade. One will be just on our own barriers to trade out there in the United States. We are going to hold another hearing on Eastern European opportunities for international trade—is it

more headline or bottomlined? Right now, it is all glitz but, as you know, that is often exaggerated, and we are not sure.

Then we will be holding a hearing specifically on the area of high technology. I do not mean sophisticated Defense Department technology but biotechnology, air traffic control equipment, those kinds of things where the United States is really on the cutting edge of research and development—pharmaceuticals those kinds of things—and we will be holding a hearing on that.

So we thank you for your testimony. You have given us a lot of help not only on new small business legislation, but the Chair of the full Committee is Senator Bumpers, and I and many of the Members of this Committee are also on the Appropriations Committee, which enables us through State, Justice, and Commerce to make sure the resources are there to do what we are doing. Very often we feel we have to invent new programs with our signature on it rather than making sure that what we have works, is effective, and is sustained so O'Hagan and all the other people who use these programs and call that number today will not get a disconnect signal.

Do you not think that the information has to be reliable and sustainable so that year to year you know to what you can turn? Am I right in that?

Mr. SKALKA. Absolutely.

Senator MIKULSKI. So we thank you again for your participation and look forward to more conversation.

[Whereupon, at 3:50 p.m., the hearing was adjourned.]



A P P E N D I X



U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, D.C. 20416



Honorable Barbara A. Mikulski
United States Senate
Washington, DC 20510

Dear Senator Mikulski:

You requested from the U.S. Small Business Administration (SBA) information on the effects of European Community (EC) unification on U.S. small businesses. I am pleased to submit these remarks for inclusion into the record of your hearing on March 28, 1990.

Following discussions with your staff, I would like to direct my comments principally to your question on which marketing strategy small businesses should use for entering the European market. I wish to focus upon one particular method: the use of export management companies (EMCs) and export trading companies (ETCs). While each company seeking to export should tailor its approach to its particular product line, in-house resources, marketing objectives and interests, the use of EMCs and ETCs offers certain benefits, particularly to new-to-export or new-to-market companies.

As you are aware, U.S. based export management companies are private sector firms that specialize in exporting U.S. products. As an intermediary between the U.S. supplier and the foreign buyer, an EMC serves as the supplier's export department. EMCs have expertise in particular countries or products, or a combination of both. An EMC enters into a contractual agreement with the U.S. supplier either to sell the product overseas on a commission basis, or to buy the supplier's product outright for export. In either case, the EMC is responsible for the actual export operations, and the process essentially becomes a simple domestic transaction for the U.S. supplier.

Export trading companies, which have been common in Japan, Korea and Europe for decades, also specialize in exporting. ETCs differ from EMCs in that they are usually publicly-held or created by large multinational corporations or groups of companies that have combined their resources to exploit economies of scale. While many ETCs are formed to export primarily the products of the organizing company or companies, notable exceptions are those established by governments or other official agencies. ETCs often apply for certification from the U.S. Department of Commerce to protect themselves from a range of liability concerns, including antitrust.

Both EMCs and ETCs provide varying ranges of export services, including international market research and overseas marketing,

insurance, legal assistance, product design, transportation, foreign order processing, warehousing, overseas distribution, foreign exchange and even taking title to the goods. These services all help extend the limited resources of small businesses.

For the small American company that does not have sufficient time, personnel or capital resources to undertake an export effort, utilization of an EMC/ETC offers an excellent alternative. After realizing the benefits of exporting and gaining experience by using an EMC/ETC, a small business will often "graduate" to undertaking its own in-house export operation.

Despite the advantages that EMCs/ETCs offer, these partnerships have not developed extensively in the United States. EMCs/ETCs often have difficulty in locating desirable suppliers, and many potential exporters remain unaware of the existence and potential of EMCs/ETCs.

The Federal government can address these problems by: 1) educating small business about the role of EMCs/ETCs; and 2) facilitating the "matchmaking" process.

There have been various initiatives over the years to accomplish these objectives. Lists of EMCs/ETCs, describing their areas of expertise, have been published by both public and private sector sources. Distribution of these lists, however, has been somewhat limited. "Matchmaking" symposiums have also been conducted on a limited basis. At such "matchmakers," EMCs/ETCs exhibit their services to small businesses in a trade show environment. However, this approach has not proven particularly successful.

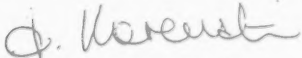
In response, the SBA conducted in 1984 in Philadelphia its first "Reverse Matchmaker." It differed from prior matchmakers in that the small businesses exhibited their products to the EMC/ETC attendees, and the small businesses were assisted in matching up with EMCs and ETCs which could take their products overseas. This approach proved much more successful. Since then, the SBA has conducted Reverse Matchmakers in Chicago in 1985, Arlington, Virginia in early 1989, and Newark, New Jersey in September 1989. Based upon responses from 20 percent of the participants in the Newark Reverse Matchmaker, \$5,675,000 worth of goods have been shipped overseas to date.

Due to the success of the Reverse Matchmakers, this format will be repeated at future conferences by SBA Regional Offices: Denver in June 1990; Kansas City in June 1990, Newark in 1991, and Atlanta in 1991 (proposed). These conferences will be conducted in cosponsorship with other organizations, including the U.S. Department of Commerce and the National Federation of Export Associations.

The Small Business Administration is now considering institutionalizing the Reverse Matchmaker program, in order to give it national exposure. Some EMCs were so pleased with their results in Newark that they will be participating in the Kansas City and Denver events. With national exposure, we believe we can encourage even greater participation by EMCs in the program, to the benefit of small businesses.

EMCs are a valuable resource in the effort to increase small businesses' ability to enter the international marketplace. As such, the SBA welcomes the mandate in the Omnibus Trade and Competitiveness Act of 1988 to assist the EMC industry. The SBA is working toward this end and we will continue to do more.

Sincerely,



Antony Korenstein
Director
Office of International Trade